

103

REVIEW OF THE URUGUAY ROUND GATT AGREEMENT IMPLICATIONS FOR AGRICULTURAL TRADE

Y 4. AG 8/1:103-56

Review of the Uruguay Round Gatt Ag...

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

MARCH 16 AND APRIL 20, 1994

Serial No. 103-56



Printed for the use of the Committee on Agriculture

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REVIEW OF THE URUGUAY ROUND GATT AGREEMENT IMPLICATIONS FOR AGRICUL- TURAL TRADE

WEDNESDAY, MARCH 16, 1994

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives Volkmer, Sarpalius, Long, Condit, Peterson, Dooley, Clayton, Minge, Hilliard, Pomeroy, Holden, Thurman, Bishop, Thompson, Williams, Roberts, Emerson, Gunderson, Lewis, Allard, Barrett, Nussle, Boehner, Ewing, Doolittle, Kingston, Dickey, Pombo, Smith of Michigan, and Everett.

Staff present: Joseph Muldoon, associate counsel; Gary R. Mitchell, minority staff director; William E. O'Conner, Jr., minority policy coordinator; John E. Hogan, minority counsel; Dale Moore, minority legislative coordinator; Glenda L. Temple, clerk; Anita R. Brown, Joe Dugan, and Lynn Gallagher.

OPENING STATEMENT OF HON. E (KIKI) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The CHAIRMAN. The committee will be in order.

We wish today to welcome Ambassador Mickey Kantor, our United States Trade Representative, and Secretary of Agriculture Mike Espy, our former colleague and friend, not that Mr. Kantor isn't a friend. [Laughter.]

We understand both gentlemen have a number of other commitments today, but we appreciate their clearing their schedule so we could spend some time on the Uruguay Round of world trade negotiations and its implications for agriculture.

I was fortunate to be in Geneva the final week of meetings between the trade negotiators that resulted in the finalization of the agreement. It was clear to me that considering the countries involved and the difficult and sensitive issues involved, the successful conclusion, if we can call it that, was an historic accomplishment for all trade negotiators.

I was very impressed and happy to be at least a very small part of our team that was there. Ambassador Kantor and Secretary Espy did an excellent job, and I commend both of them for their tenacity and negotiating skills in bringing 7 years of negotiations to a successful conclusion.

I might say unofficially that I would go bang on the negotiators from the other side as they went from one meeting to the other. So I'm hopeful that this committee had some input, as I would visit with all of the negotiators from the other countries. This includes winding up with the credentials of one of the main negotiators for the other side when he told me "You've taken everything, you might as well take my credentials." [Laughter.]

That should go to the credit of Ambassador Kantor and Secretary Espy. On balance, I think that the agreement will benefit the American economy and most of American agriculture. I must give credit to some of the initial work, including the Blair House Accord, which our other former colleague and friend, Secretary Madigan worked on very successfully.

So there are still some outstanding questions to be considered. But I want to assure both gentlemen here that this committee is ready to work with them and finalize at the earliest possible moment after it's signed the agreement which will come before us.

[The prepared statement of Mr. de la Garza follows:]

**Statement by Rep. Kika de la Garza
Chairman, House Agriculture Committee**

**Hearing to Review the Uruguay Round Agreement
Wednesday, March 16, 1994**

We are pleased to have with us today Ambassador Mickey Kantor, the U.S. Trade Representative, and Agriculture Secretary Mike Espy who will discuss the final agreement reached late last year in the Uruguay Round of world trade negotiations and its implications for agricultural trade. I understand both gentlemen had a number of other commitments today, but we appreciate their clearing their schedules so that they together could spend at least a couple of hours with us this morning.

I have just some brief observations to make before we turn to their testimony and the questions the Members may have on the agreement and other issues of concern.

I was fortunate to be in Geneva during the final week of meetings between the trade negotiators that resulted in the finalization of the agreement. It was clear to me that given the many countries involved and the difficult and sensitive issues involved, the successful conclusion of the Uruguay Round is an historic accomplishment for all the trade negotiators and governments involved.

I was also impressed by the team approach taken by Ambassador Kantor and Secretary Espy on the agriculture portion of this trade agreement. Ambassador Kantor is to be commended for his tenacity and negotiating skills in bringing the seven years of negotiations that went into the Uruguay Round to a successful closure.

And I believe all of American agriculture owes a great

debt of gratitude to Secretary Espy for the priority he gave to these negotiations. I would also like to commend Secretary Espy for the personal accessibility he gave to all of us who were in Geneva during those final, hectic days -- the Members of Congress, the representatives of American agricultural organizations and companies, and the news media. Mr. Secretary, you were not always able to bring the news we wanted to hear, but we appreciated your candor.

On balance, I believe the Uruguay Round agreement will benefit the American economy and most of American agriculture. While there were modifications made to the Blair House accord in order strike the final agreement, the net result is the same -- a commitment by both the United States and the European Community to reduce costly export subsidies.

Obviously, there are a number of outstanding questions related to the implementation of the Uruguay Round agreement that need to be considered by Congress, in consultation with the Administration. I want to assure the Administration that this Committee stands ready to be of assistance and counsel in the drafting of the implementing measure.

#

The CHAIRMAN. Mr. Roberts.

OPENING STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. ROBERTS. Yes, thank you, Mr. Chairman, and thank you for calling the hearing so that we can hear about agricultural trade and the GATT agreement from the administration's most senior officials. I share your desire for a bipartisan effort on behalf of the GATT agreement, and I want to thank Secretary Espy and Ambassador Kantor for continuing the march on behalf of agriculture and for all the work that they have done.

In a previous discussion that we had in your office, Mr. Chairman, I indicated there were several concerns that I wanted to raise that I think really impact the GATT agreement. And I know that we can't settle these issues as of this morning, because time is valuable.

There are three things that I would like to see in regards to a meaningful dialog to clear up our export picture before we vote on GATT. One, and I address this to Secretary Espy, we need to know what the administration's going to do about the conservation reserve program. We have 36 million acres of farmland held in environmental reserve, which would come back into production over the next 5 years if we don't act.

Ken Cook and others in the environmental movement want to fund it only to the extent of 25 percent. That would mean about 26 million acres back into production. With that kind of a surplus and price impact and deficiency payment impact, it impacts on GATT. And so before the vote, I would like to sit down with you and let's try to work out some kind of a blueprint where our producers simply know what to expect.

Second, I know this is a little premature, there is tremendous concern over the farm bill. We deal with two farm bills every year now, one with ag appropriations and another with the budget, and since every commodity program's apparently on the chopping block or a target for some instantly declared Secretary of Agriculture on the floor of the House, I would like to know what the blueprint is in terms of funding levels.

Are we going to extend the current program? Are we looking at revenue insurance? Where are we headed? Because that also impacts with regard to GATT.

Now, we'll meet on those issues and we'll discuss them. But as the ranking Republican and speaking on behalf of our side, we would like a little clarification on that prior to the vote on the GATT agreement.

And now third, I think you've done a good job with GATT. We had agreed originally with the Blair House Agreement, which we thought was the bottom line for agriculture, on a 21-percent reduction in export subsidies over 6 years. And at the last minute in Geneva, in order to get an agreement, I understand there was a compromise and we allowed the Europeans to use a new base period that will permit the subsidized export of an additional 8 million tons of grain over the 6 years.

That's about 3½ Kansas wheat crops. Obviously, that certainly gets my attention, as well as every other Representative from a grain State.

Now, not to worry, because you fought hard and you won the right to export an additional 7.5 million tons of wheat under the same agreement, and on the face, this doesn't seem to be a problem, farmers are told not to worry. But having the right under GATT to use the export subsidy does not mean that right will be used.

Now, even before the ink was dry on the agreement, we have folks like, oh, I think it was Robert Rubin at the National Economic Council who were publicly criticizing the export enhancement program. Thank goodness, we have Mike Espy as our champion and Ambassador Kantor as our champion with the administration.

But I think it's common knowledge that the Departments of Commerce, State, Treasury, National Economic Council, Office of Management and Budget, all have some criticisms. And so I would like a clarification on the part of the entire administration in behalf of an aggressive use of EEP.

Now, we have the Sun Oil Assistance Program—SOAP and the Cottonseed Oil Assistance Program—COAP. Mr. Stenholm and I and others on the committee agreed to go with something called flex acres. That's sort of a nice way to say that your target price is going to get cut. Without these particular export programs we are at a competitive disadvantage unless we have SOAP and COAP.

I would sure like to see a clarification on some intent in regards to the restoration of those programs. I know you have put them in the EEP basket, but I think they should be targeted.

I think the bottom line is this. If the administration wants some farm State support for its agreement in regard to GATT, and I think long term it is a good agreement, I am not trying to unravel it, but we're going to have to be assured that the export subsidies that are legalized by the agreement and sure to be used by our competitors are going to be matched also by our Government.

The reason I'm concerned about this is not only in regards to the GATT agreement, but look in regards to our export market. We used to export 2 billion dollars' worth of grain annually to the former Soviet Union, very questionable as to whether we have that market. Now, we have a situation with our biggest ag export market in Japan, \$9 billion in farm trade. And I'm all for cellular telephones, and I'm all for fair treatment, but I don't want to do anything that's going to endanger that ag trade.

In China, that's our fourth largest export market for wheat, overall it buys about \$500 million in food from our producers annually. It has a surging economy, largest potential growth, and we're hung up in a most favored nation debate, which as far as I'm concerned, is sort of a misnomer. I don't want to see us do anything there to endanger that market.

We have the Canadian wheat situation that isn't a situation, it's a real problem, a real crisis. So I think we need a more comprehensive approach to the export policy and I'm going to give you a letter addressed to the President addressing these concerns signed by all

of our members on our side in regards to the Ag Committee. And another 20 members will probably sign it that belong to a task force.

Bottom line, this is not a no, no, no, no, no, no speech. This is a promise of a yes if we can get the export policy clarified. It is a maybe, maybe, maybe, maybe, I hope we can give you a yes speech. But CRP, I want to know what's going to happen with the farm bill, and then we have to answer these short-term questions in regard to export policy. I want to work with you, we want to get it done. So it's not a no, it's a maybe, and let's work together.

I thank you, Mr. Chairman.

[The prepared statement of Mr. Roberts follows:]

STATEMENT OF REPRESENTATIVE PAT ROBERTS FOR THE AGRICULTURE
COMMITTEE HEARING ON MARCH 16, 1994

I want to thank you, Mr. Chairman, for calling this hearing to give us the chance to hear about agricultural trade and the GATT agreement from the Administration's most senior officials. There is no more important subject to the farmers I represent than our ability to export the grain they so efficiently produce. Because of this I have long been a supporter of trade agreements that lower import barriers and level the international playing field for our farmers.

Today, however, I am troubled by the future I see being constructed for our producers. The Administration will soon come to Capitol Hill to ask for our votes to implement the recent agreement on the Uruguay Round of the GATT. It will be difficult for me to be an enthusiastic supporter of the GATT until issues that affect the future of production agriculture become clearer.

We cannot address all of these issues today, but let me note two specific questions that I will want to discuss in the near future:

1. What does the Administration intend to do about the Conservation Reserve Program (CRP)? There are presently over 36 million acres of farmland held in this environmental reserve, all of which will come back into production over the next five years if we do not act. At present the Administration has taken no steps to address this question.
2. What are the Administration's plans for the 1995 Farm Bill? Will the present programs be extended? Will the levels of financial support remain generally the same? Without the answers to these questions production agriculture's future remains very uncertain.

Mr. Secretary, I will be seeking a meeting with you soon to discuss these issues.

A third question that must be resolved is directly relevant to today's hearing: our use of export subsidy programs. Farmers generally supported the original U.S. goal of the Uruguay Round to eliminate export subsidies from agriculture trade completely. They watched over the years as this position was negotiated away, until finally at Blair House in late 1992 the U.S. and the E.U. agreed on a 21 percent reduction in export subsidies over six years.

Even though this was only a fraction of the original goal, farmers were reluctantly prepared to accept this deal. They were assured by Clinton Administration officials this was the "bottom line" on farm exports and there would be no more compromises. Then at the last minute in Geneva there was yet another concession to the Europeans, allowing them to

use a new base period that would permit the subsidized export of an additional eight million tons of grain over the six-year implementation period. That is the equivalent of three and a half Kansas wheat crops.

Farmers were told not to worry because the U.S. would be able to export an additional 7.4 million tons of wheat under the same agreement. On its face this not seem like a bad deal, BUT having the right under GATT to use export subsidies does not mean it will be used.

Indeed before the ink was dry on the agreement, senior Clinton officials, like Robert Rubin at the National Economic Council, were publicly criticizing the Export Enhancement Program (EEP), our primary export support program. While we all know that Mike Espy at Agriculture has championed EEP, it is common knowledge that the departments of Commerce, State and Treasury, the National Economic Council and the Office of Management and Budget have all sought to limit or completely eliminate EEP.

Shortly thereafter, the Clinton budget proposal for 1995 called for the elimination of the Sun Oil Assistance Program (SOAP) and the Cottonseed Oil Assistance Program (COAP), which were designed specifically to assist the export of vegetable oils. Is this the action of an Administration committed to maintaining and expanding our agricultural exports?

If this Administration wants farm state support for its GATT agreement, somehow we are going to have to be assured that the export subsidies legalized by the agreement and sure to be used by our competitors are going to be matched by our government. We need a commitment from the Administration as a whole, not just the Department of Agriculture, that we will aggressively use EEP and all the other exports tools at our command to maintain and expand our position in world agricultural trade.

But even if this problem is resolved a survey of our major markets around the world raises new cause for concern. First we have effectively lost our largest wheat and feed grain market with the collapse of the Soviet Union. Where we used to export \$2 billion worth of grain annually, next year we will be lucky to export any grain at all.

In our biggest agricultural export market, Japan, nearly \$9 billion in farm trade was put at risk for a handful of cellular telephones. According to yesterday's Washington Post, the handling of that issue managed to offend the Japanese government and strain our relations. The question arises as to whether this Administration is fully taking into account the existing trade we have as it pursues symbolic trade disputes?

China has been our fourth largest export market for wheat and overall buys \$500 million in food from U.S. farmers annually. China, with its surging economy, is also the largest potential growth market for U.S. agricultural exports. Yet just this week our

Secretary of State has been in China threatening to cut off Most Favored Nation status, following a policy that has been widely criticized both here and abroad.

On our northern border the lingering crisis over the import of Canadian wheat and barley continues without an adequate solution in sight. To the south we have been unable to use the EEP program to broaden our market penetration of our newly opened markets. U.S. farmers are also denied EEP assistance in several unexploited world markets as the process bogs down in an endless interagency process.

The question farmers are asking is: When are going to stop shooting ourselves in the foot on agriculture exports? Farm state representatives are beginning to wonder whether this Administration has a coherent strategy to expand U.S. agricultural exports. Until we can have greater confidence in the direction we are headed on trade policy, it is going to be very difficult for many of us to support GATT or any Administration trade initiative.

(Attachment follows:)

E (KIA) DE LA GARZA, TEXAS,
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BLANCHE H. LAURENT, ARKANSAS

U.S. House of Representatives Committee on Agriculture

Room 1301, Longworth House Office Building

Washington, DC 20515-6001

March 15, 1994

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800 235-6010

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

Your Administration will soon be sending the implementing legislation for the GATT agreement to Capitol Hill for Congressional action. As representatives of agricultural constituencies, we are very concerned about the conflicting messages we have been hearing from Administration officials regarding agricultural exports under the new agreement. These ambiguities must be cleared up prior to any Congressional vote on GATT.

The entire farm community followed the Uruguay Round very closely over the long years of negotiation. American producers' support for the Round and their willingness to give up trade protection was based on the pursuit of a more level playing field for their commodities in world trade. The American farmer can compete head to head with any farmer in the world, but our private farmers cannot compete against foreign governments.

Farmers watched as the goal of a worldwide end to export subsidies and unfair trade barriers was "negotiated away" to the levels secured at Blair House in 1992. Despite their disappointment at the limits on market access and only fractionally reducing export subsidies, most farmers still felt that "Blair House" represented at least a marginal improvement in their export prospects. They also took some comfort from government statements that Blair House was the "bottom line" U.S. position.

Farmers were thus shocked when the final agreement allowed our major competitor, the European Union (EU), to use even more export subsidies over the next six years. This final compromise of the U.S. position was not of marginal consequence. Under the final agreement the EU would be able to subsidize the export of an additional eight million tons of wheat. Farmers were told that they would be compensated by additional export subsidies for U.S. products during the same period, and Secretary Espy publicly declared that the U.S. would aggressively use the export subsidies provided by the agreement.

However, before the ink was dry on the final agreement, press reports surfaced citing Administration sources that U.S. use of export subsidies was under review. There were even

reports that the Export Enhancement Program (EEP) and the Dairy Export Improvement Program (DEIP) might be ended in the near future. EEP and DEIP are the primary means that our farmers have to compete with the EU subsidies in world agricultural markets. If our government is not going to make full use of these programs, as provided in the GATT accords, the conclusion of the Uruguay Round will move from being a marginal benefit to becoming a trade catastrophe for American farmers.

Another distressing item appeared in your February 7 budget announcement. Your budget proposes to end funding for the Sunflower Oil Assistance Program (SOAP) and the Cottonseed Oil Assistance Program (COAP). SOAP and COAP were created by Congress to specially address the export difficulties faced by these industries. Ending the funding for these programs before we even bring the new GATT agreement into force does not lend credibility to this Administration's commitment to keeping our agricultural commodities competitive in a world that will remain heavily subsidized.

To adequately represent the interests of our rural constituents, we need to cut through the fog of contradictory statements and actions and get a clear understanding of the level of your Administration's commitment to the promotion of U.S. agricultural exports. Will this Administration utilize the EEP and the DEIP to the full extent provided in the GATT agreement? How can a commitment to agricultural export promotion be reconciled with your budget proposal to end the SOAP and COAP programs? The support of farmers and their representatives in the upcoming legislative debate will be heavily influenced by a clear understanding of these issues.

Sincerely,

Pat Roberts

Doug Brantner

Tom Lewis

Bill Emerson

John Brehm

Richard Pombo

Tom Emery

Sam By

Jim Nunn

Mike Crapo

Lee Barnes

Bob Smith

Jane Camp

Jim Wahl

Terry Everett

Wayne Allan

Phil Handy

Larry Cornwell

Steve Damm

The CHAIRMAN. I thank the gentleman, and in the very near future we will devote a day to the gentleman's concerns.

The members will be apprised that you have before you some information provided by USDA that should be in your packet: A summary entitled, "Effects of the Uruguay Round Agreement on U.S. Agricultural Commodities" along with table 4, Agricultural Negotiations: Supporting Data, a list of U.S. policies included in aggregate measure of support, Uruguay Round: Internal Support, and a booklet entitled "Agricultural Provisions of the Uruguay Round."

Also, any prepared statements received from the members will be placed at this point in the record.

[The prepared statements of Mr. Williams, Ms. Lambert, Mr. Emerson, Mr. Gunderson, Mr. Kingston, and Mr. Everett follow:]

EFFECTS OF THE URUGUAY ROUND AGREEMENT ON U.S. AGRICULTURAL COMMODITIES

SUMMARY

On December 15, 1993, the United States reached an historic agreement in concluding the Uruguay Round of Multilateral Trade Negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT). Benefits arising from the agreement include:

- *The Uruguay Round agreement on agriculture will lead to substantially improved access for U.S. agricultural exports.* Requiring countries to reduce levels of trade-distorting support, export subsidies and import protection will reverse the increasing trend in protectionism that has shut our exports out of a number of growing markets. Increased agricultural exports mean higher prices for U.S. farmers and higher farm income.
- *U.S. farmers will gain from the increase in world income that will arise from the Uruguay Round agreement.* Studies suggest that the increase in world income could be as much as \$5 trillion over ten years. The growth in world income will increase the demand for agricultural products, particularly for income-sensitive commodities like meat, fruits, vegetables and other specialty crops. Increased demand for beef, pork and poultry means that U.S. feed grain and soybean producers will gain as well.
- *U.S. agricultural exports are expected to increase by \$1.6 to \$4.7 billion in 2000 and by \$4.7 to \$8.7 billion in 2005.* Grains and animal products account for almost 75 percent of the increase.
- *Increased exports mean more export-related jobs, particularly for high-value and value-added products.* Agricultural export-related employment is expected to increase by as much as 112,000 jobs in 2000, and by as much as 190,000 jobs in 2005.
- *Increased exports will raise farm prices, increase farm income, and lower government outlays on price and income support programs.* The Uruguay Round agreement is expected to raise net farm sector income by as much as \$1.3 billion in 2000 and by as much as \$2.5 billion in 2005. Government outlays in 2000 could decline by almost \$1.3 billion and in 2005 could be as much as \$2.6 billion lower.

- *The Uruguay Round marks a beginning, not an end.* The Uruguay Round agreement in agriculture is the first step in moving world agriculture towards more liberalized markets. It commits GATT members to consider further liberalization. Consider the case of non-agricultural goods. Prior to 1947, the average tariff rate for non-agricultural goods exceeded 40 percent. After seven GATT rounds, the average tariff rate for these goods was just 5 percent. The Uruguay Round will reduce these tariffs further to 3.5 percent.
- Perhaps even more important for the future is the discipline the Uruguay Round will apply to countries who might otherwise choose the direction of closed markets, production-inducing internal supports and subsidized exports. This agreement has important consequences for our large trading partners that are currently outside of the GATT: China, Taiwan, and the nations of the Former Soviet Union.

PROVISIONS OF THE AGREEMENT

The Uruguay Round (UR) Agreement is an historic effort to open world agricultural markets, prompting increased trade and dynamic growth. The agricultural agreement covers four areas, including export subsidies, market access, internal supports, and sanitary and phytosanitary rules. The agreement is implemented over a 6-year period, 1995-2000.

Export Subsidies

Subsidized exports must be reduced by 21 percent in volume and 36 percent in budget outlays over 6 years from the 1986-90 base period. Under the flexibility provisions, countries may phase-in the export subsidy reductions for any commodity in equal annual increments from 1991-92 levels over the 6 years. Products that did not receive export subsidies in the 1986-90 period will be ineligible for export subsidies in the future.

Market Access Provisions

Under the UR agreement, all non-tariff import barriers are to be converted to bound tariffs. (This conversion process is referred to as "tariffication".) These tariffs as well as other (pre-existing) tariffs will be reduced by a minimum 15 percent and on average 36 percent over the 6-year implementation period. In addition, for products subject to the tariffication process, countries agree to maintain current access opportunities and to establish quantitative commitments for new access opportunities if imports in the 1986-88 base period were low or non-existent.

Internal Supports

Under the UR, total internal support is reduced over 6 years by 20 percent from a 1986-88 base period. No changes would be required in U.S. policies to meet a cut in total internal support. Total support is measured by a total Aggregate Measure of Support (AMS) which is the sum of commodity-specific AMSs and a sector-wide AMS. Support measures agreed upon as non-trade distorting are exempt from reduction. These permitted policies include conservation measures, crop insurance and disaster assistance, extension programs, and income payments that are not based on current production levels. Permitted policies are exempt from countervailing duty actions and other GATT challenges (e.g., nullification and impairment actions, serious prejudice actions).

The agreement exempts direct payments that meet certain criteria from the reduction in total support for the 6-year implementation period. These criteria generally require that payments are made on a fixed quantity and on less than base period production. U.S. deficiency payments would be exempt from reduction commitments.

Direct payments exempt from reduction and other internal supports subject to reduction would not be exempt from countervailing duty actions. However, they would be exempt from other GATT challenges provided support for a specific commodity did not increase from 1992 levels during the implementation period.

Sanitary and Phytosanitary Measures

The sanitary and phytosanitary agreement for the first time enables countries to use GATT rules to check the use of unjustified health-related regulations that restrict trade while assuring a country's right to protect food safety and animal and plant health. Under the agreement, sanitary and phytosanitary measures must be based on science. However, countries may maintain science-based standards that are stricter than international standards.

Special and Differential Treatment for Developing Countries

Developing countries are given special treatment under the UR. Developing countries are required smaller reduction commitments, equal to two-thirds of the corresponding commitment for developed countries, to be implemented over 10 years. Least-developed countries are exempt from reduction commitments.

AGGREGATE EFFECTS

Important summary measures of the effects of the Uruguay Round on U.S. agriculture are exports, aggregate farm sector income, export-related employment and Government outlays. This section presents preliminary projections of these measures under the agreement compared with USDA's baseline projections which assumed a continuation of pre-Uruguay policies. Projections are presented as a range, reflecting a range of plausible growth rates for global income generated by the Uruguay Round. The Uruguay Round is projected to result in higher U.S. exports, more export-related jobs and higher aggregate farm sector income in 2000 compared to baseline levels. Net farm program outlays are projected to decline. Larger gains are expected to occur by the year 2005 as world income grows due to the Uruguay Round.

Effects on U.S. Agricultural Exports

A summary of the projected export effects are listed in Table 1. Added exports in grains and animal products account for almost 75 percent of the total export value expansion by 2005.

Table 1—Projected Increase in U.S. Agricultural Exports Under the Uruguay Round 1/
(million dollars)

Commodity	Change from baseline	
	FY 2000	FY 2005
Grains and feeds	490 - 1,940	1,950 - 3,910
Cotton	50 - 290	60 - 590
Animal Products	740 - 1,660	1,690 - 2,510
Horticultural products	180 - 280	200 - 370
Oilseeds and products	170 - 530	810 - 1,330
Total	1,630 - 4,700	4,710 - 8,710

1/ Valued at point of export.

Effects on Aggregate Farm Sector Income

Farm sector income gains are made up of several items. The projected increase in cash receipts is about \$5 billion by 2000. However, lower government outlays on price and income support programs and higher production costs caused by expanded output and higher input prices such as feed mean that net income for the farm sector goes up by over \$1 billion in 2000 and by as much as \$2.5 billion by the year 2005.

**Table 2—Projected Increase in U.S. Aggregate Farm Sector Income
Under the Uruguay Round (billion dollars)**

Item	Change from baseline	
	2000	2005
Gross farm sector income:	3.6 - 4.6	8.4 - 9.6
Cash receipts	4.0 - 5.4	9.8 - 11.6
Government payments	(0.3) - (0.7)	(1.7) - (2.5)
Other 1/	(0.1) - (0.1)	0.3 - 0.5
Total production expenses	2.5 - 3.3	6.5 - 7.1
Net farm sector income	1.1 - 1.3	1.9 - 2.5

() denotes negative number.

1/ Includes farm-related income and value of inventory changes.

Effects on Export-Related Employment

Increased exports due to the Uruguay Round Agreement are projected to create an additional 41,000 to 112,000 jobs in the year 2000 and 105,000 to 190,000 jobs in 2005.

Table 3—Projected Increase in Export-Related Employment Under the Uruguay Round (thousand jobs) 1/

Commodity	Change from baseline	
	2000	2005
Grains and feeds	9.1 - 35.7	32.8 - 66.1
Cotton	1.4 - 8.2	1.6 - 15.7
Animal products	23.5 - 54.2	54.3 - 81.0
Horticultural products	4.1 - 5.7	3.6 - 6.8
Oilseeds and products	3.1 - 8.5	12.3 - 20.1
Total	41.1 - 112.2	104.5 - 189.7

1/ Analytical method is described in Appendix II.

Effects on Farm Program Outlays

Increased exports will raise farm prices which will lower deficiency payment rates. However, the reduction in outlays due to lower deficiency payment rates will be offset somewhat by lower acreage reduction program requirements due to lower stocks-to-use ratios than under the baseline. Nonetheless, deficiency payment reductions could exceed \$1 billion by 2000 and could be as high as \$2.4 billion by 2005. Feed grains account for almost 60 percent of the reduction.

Total deficiency payment reductions over the 6-year implementation period are estimated between \$1.7 billion and \$4.1 billion. Reductions in total deficiency payment outlays over 2001-2005 are projected to range between \$7.3 to \$9.6 billion.

Export subsidies will be reduced by 36 percent from 1986-90 levels. This will mean an annual decrease from baseline program levels of over \$500 million by 2000 and beyond.

Commodity Credit Corporation (CCC) outlays for dairy will rise because increased imports and the reduction of dairy export subsidies will raise net removals.

**Table 4—Projected Change in Farm Program Outlays Under the Uruguay Round
(million dollars)**

Item	Change from baseline	
	2000	2005
Deficiency payments	(435) - (1,040)	(1,735) - (2,410)
Export subsidies 1/	(535)	(535)
CCC dairy outlays	275	300
Total	(695) - (1,300)	(1,970) - (2,645)

() denotes negative number.

1/ Change in program level.

Effects on Agricultural Tariff Revenues

The Uruguay Round agricultural agreement is expected to result in an annual estimated net loss in agricultural tariff revenue of \$275 million by the year 2000. Tariff revenue losses will occur because of the average 36 percent reduction in tariffs required under the agreement. There will be some tariff gains for commodities, such as peanuts, where tariff rate quotas have been established with low in-quota tariffs.

The reductions in tariff revenue due to tariff cuts were calculated based on the change in tariff rates required under the agreement and the average level of trade for those commodities in 1990-92. Because it is expected that imports of many commodities will increase due to lower tariffs, the estimated tariff revenue reductions are likely overstated. For commodities where the percent increase in imports exceeds the percent drop in tariffs, tariff revenues will increase.

SELECTED COMMODITY EFFECTS

Wheat. The Uruguay Round agreement will change world wheat markets fundamentally as subsidized exports, particularly from the European Union, are reduced substantially. Removal of subsidies will increase prices, dramatically for some countries, and reduce world trade in the first years of the agreement. Increased global incomes will increase world import demand significantly after 2000. U.S. wheat production is expected to increase and exports are projected to increase 150-200 million bushels above baseline projections by 2005. The agreement will strongly reinforce current trends in the U.S. wheat sector toward greater market orientation. U.S. prices are expected to rise 8-12 percent, increasing market returns and farm incomes and decreasing deficiency payments.

Feed grains. Higher world incomes will significantly increase world import demand for coarse grains under the Uruguay Round, with most of the impact occurring after 2000. Increased access commitments and reductions in subsidized exports also will provide trade opportunities. The United States will be the principal direct beneficiary. U.S. corn production is expected to increase, and exports are projected to rise 200-300 million bushels. In addition, increased U.S. exports of livestock products will increase domestic feed grain use. The agreement will strongly reinforce current trends in the U.S. corn sector toward greater market orientation. U.S. corn prices are expected to rise 6-9 percent over baseline projections by 2005, increasing market returns and farm incomes and decreasing deficiency payments.

Rice. The Uruguay Round agreement will open the highly protected high-income rice markets of Japan and Korea, maintain access to important markets in the European Union, and limit adoption or expansion of trade distorting internal support policies in Asia and elsewhere. The agreement will substantially increase world import demand for the medium-grain (japonica) rice preferred in Japan and Korea. As a major exporter of medium-grain rice, the United States will benefit significantly as U.S. prices and export values rise, but the full extent of the gain depends on U.S. capacity to expand production and exports.

Soybeans. The Uruguay Round has limited implications for soybeans because world trade in oilseeds and products is distorted little by high tariffs and non-tariff barriers and subsidized trade is relatively unimportant. Oilseed production also is relatively unsupported outside of the European Union. Increased world soybean meal and soybean oil import demand from the UR depends principally on higher world incomes, and much of that impact will appear after 2000. Adjustments in other crops will heavily influence the outcomes for U.S. oilseeds, in addition to the impact of increased domestic demand and exports. The United States will not be required to reduce loan rates or any other internal support measure for U.S. oilseeds. By 2005, U.S. soybean production is projected to be as much as 3 percent higher and prices are expected to be as much as 9 percent above baseline levels.

Peanuts. Under the Uruguay Round agreement, the United States will reduce imports of peanut butter compared to the baseline while providing increased import access for edible peanut imports. U.S. producers will likely gain because the net effect is expected to be lower peanut-equivalent imports compared to baseline projections.

Cotton. The principal source of Uruguay Round effects on cotton is higher world incomes which will increase world consumption of cotton textiles and apparel. Liberalization of textile and apparel trade eventually will further increase world cotton demand. Export subsidies are not important in world cotton trade, and support for cotton production is limited among GATT member countries. The United States is expected to increase raw cotton exports about 500,000 to 1 million bales by 2005, with small increases in U.S. and world cotton prices.

Sugar. The Uruguay Round will have limited effect on world sugar markets. Increased access commitments, lower tariffs, and reductions in subsidized exports will create trade opportunities for exporters. The largest effect on world sugar markets is expected to come from increased demand due to the higher incomes brought on by trade liberalization. The agreement will have minimal direct effect on the U.S. sugar sector. U.S. production, consumption, trade and domestic prices are expected to be little changed from baseline projections.

Dairy. The Uruguay Round agreement will have minor effect on the U.S. dairy industry. Production and commercial use will be about the same and milk prices are expected to increase. However, higher government removals and reductions in government-assisted exports under the Dairy Export Incentive Program (DEIP) are expected to cause government expenditures to increase by \$200 million by 2000.

Beef. The Uruguay Round is expected to increase world beef trade because of increased market access in East Asia and North America and because higher incomes will increase demand worldwide. U.S. beef exports are projected to increase by 10-14 percent by 2005, while imports are expected to increase by 6-10 percent and prices rise by 5-7 percent.

Pork. The Uruguay Round Agreement will increase access to highly-protected pork markets in Asia and Western Europe, reduce subsidized exports from the European Union and boost global demand by raising world incomes. Higher international and domestic demand is expected to offset rising feed costs, leading to an expansion in U.S. production at higher prices. The United States will increase pork exports 1.20 to 1.25 billion pounds by 2005.

Poultry. The Uruguay Round agreement is expected to increase access to high-income poultry markets in Asia and Western Europe, reduce subsidized exports from the European Union, and boost global demand by raising world incomes. Increased international demand is expected to offset rising domestic feed costs, leading to an

increase in U.S. broiler production. The United States is an efficient and competitive producer and will benefit significantly from higher world demand. U.S. poultry exports increase, rising by as much as 32 percent by 2005, as foreign markets become an increasingly important outlet.

Eggs. The impacts of a Uruguay Round agreement on the U.S. egg industry are expected to be positive, but small. U.S. egg exports (including egg products) will likely increase as much as 6 percent, mainly as a result of reductions in subsidized European Union exports and increased income growth due to the agreement. Exports will remain a small share of U.S. egg production, about 2.5-3 percent. Prices are expected to rise 3-5 percent and production is projected to increase less than 2 percent by 2005.

Horticultural products. U.S. trade in horticultural products is expected to increase from baseline projections by 2000 with a Uruguay Round agreement because of lowered tariffs, higher incomes, improved phytosanitary dispute resolution procedures, and less competition with subsidized exports in some important U.S. markets. The quantity and value of U.S. exports is expected to rise more than for imports, resulting in an increase in net trade.

Supporting Table 4
Page 1

AGRICULTURAL NEGOTIATION: SUPPORTING DATA
DOMESTIC SUPPORT: UNITED STATES OF AMERICA
Measures Exempt from the Reduction Commitment

Agency and program, by measure type	Outlays (thousand dollars) 1/				Description of program
	1986	1987	1988	1988-89	
(e) General services:	4,186,231	4,269,515	4,490,659	4,325,466	
Agricultural Research Service (ARS)					Conducts research on a wide variety of topics, including soil and water conservation, plant and animal sciences, human nutrition, and integrated agricultural systems
Agricultural Research Ser.	464,032	491,201	514,155	498,463	
Buildings & Facilities	13,657	32,310	23,113	23,093	
Misc. Contributed Funds	2,676	3,000	3,123	2,833	
Tennessee Valley Authority (TVA)					Conducts research on problems related to agricultural development, environmental quality, and fertilizer material and practices
Agricultural Institute	4,947	4,205	3,564	4,239	
National Fertilizer Development	55,770	43,456	56,576	52,601	
Cooperative State Research Ser. (CSRS)					Research function. Provides grants to state agricultural research establishments. Participates in cooperative planning with state research institutions.
Cooperative State Research Ser.	260,269	281,287	301,775	281,110	
Extension Service (ES)					Advisory function. Participates with state cooperative extension system on applied education, information, and technology transfer.
Extension Ser.	339,956	318,316	317,529	325,467	
National Agricultural Library (NAL)					Research and advisory function. Acquires, maintains, and disseminates information.
Natl Agricultural Library	11,467	6,771	12,359	10,666	
Agricultural Cooperatives Ser. (CO-OPS)					Research and advisory function. Provides farmers and USDA with information related to cooperatives.
Salaries & Expenses	4,390	4,583	4,517	4,497	
Agricultural Marketing Ser. (AMS)					Marketing function.
Marketing Services (AMS)	45,228	19,915	36,635	33,693	Develops marketing standards. Provides news and inspection services
Payments to States & Possessions (AMS)	934	763	776	824	Grants to states for projects, such as improving marketing information, and developing grading standards
Perishable Ag. Commod. Act Fund (AMS)	3,710	4,197	4,500	4,136	Uses loan fees to regulate export and import buyer practices
Misc. Trust Funds (AMS)	88,072	65,692	68,631	60,865	Provides grading and certification services on a fee for service basis
State programs for agric. (FY outlays)	2,114,551	2,204,849	2,269,257	2,196,218	State governments provide a number of generally available services. Includes extension, marketing, and research. Includes user-financed activities and Federal grants.

Note. Footnotes at end of table.

Supporting Table 4
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AGRICULTURAL NEGOTIATION SUPPORTING DATA
DOMESTIC SUPPORT, UNITED STATES OF AMERICA
Measures Exempt from the Reduction Commitment

Agency and program, by measure type	Outlays (thousand dollars) /				Description of program
	1986	1987	1988	1986-88	
Animal & Plant Health Inspect. Ser. (APHIS)					Inspection/pest and disease control of function
Salaries & Expenses (APHIS)	275,655	317,483	330,882	307,933	Protects animal and plant resources from destructive pests and diseases
Buildings & Facilities (APHIS)	2,763	1,795	4,011	2,856	
Misc. Trust Funds (APHIS)	4,598	4,729	5,309	4,879	
Federal Grain Inspect. Ser. (FGIS)					Marketing/inspection functions. Establishes standards
Salaries & Expenses (FGIS)	7,018	6,679	7,239	7,045	Provides for official inspection and implementation
Inspection & Weighing Ser. (FGIS)	765	(2,971)	(4,846)	(2,384)	of the system of standards for marketing
Food Safety Inspection Ser. (FSIS)					Marketing/inspection function. Provides in plant inspection to assure
Salaries & Expenses (FSIS)	347,534	372,125	399,757	369,805	quality of meat and poultry and the accuracy of labeling
Inspect. & Grading of Farm Prod. (FIS)	802	918	1,129	950	
Off. of Transportation (TRANS)					Marketing function. Identifies transportation issues and
Office of Trans.	2,233	2,293	2,489	2,336	provides information.
Packers & Stockyards Admin. (PSA)					Conducts surveillance and investigatory activities to protect producers
Packers & Stockyards Admin.	8,707	9,033	8,240	8,993	and consumers from unfair trade practices.
Economic Research Service (ERS)					Research and advisory function. Performs economic research and
Economic Research Ser.	46,037	43,162	47,153	45,451	analysis for the public, congress, and the executive branch
Misc. Contributed Funds (ERS)	47	47	53	52	
Natl. Ag. Statistics Ser. (NASS)					Research and advisory function. Provides official estimates of resource
Natl. Ag. Stat. Ser.	58,257	60,263	57,801	58,774	utilizations and production and prices of agricultural products
Misc. Contributed Funds (NASS)	312	104	275	230	
World Agricultural Outlook Board (WAOB)					Research and advisory function. Provides economic information about
World Agric. Outlook Bd.	1,646	1,530	1,747	1,641	current outlook and situation for commodity supply and price

Note: Footnotes at end of table.

Supporting Table 4
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AGRICULTURAL NEGOTIATION SUPPORTING DATA
DOMESTIC SUPPORT: UNITED STATES OF AMERICA
Measures Exempt from the Reduction Commitment

Agency and program, by measure type	Outlays (thousand dollars) 1/			Description of program
	1986	1987	1988-89	
(b) Public Stockholding for Food Security:				
Commodity Credit Corporation (CCC)	(no acquisitions or use of reserve FY 1986-88)			
Food Security Wheat Reserve				Up to 4 million tons could be used for a Food Security Wheat Reserve, according to the Food Security Wheat Reserve Act of 1983. The reserve is to be used solely for emergency humanitarian food need in developing countries, under the PL-480 program.
(c) Domestic food aid:	18,570,368	18,862,258	20,022,856	18,158,484
Food & Nutrition Ser. (FNS)	77,872	77,410	84,831	80,038
Food Program Administration	11,618,439	11,555,481	12,264,864	11,813,295
Food Stamp Program				Food programs providing access to more nutritious diets for low income people and children
Nutrition Assist. for Puerto Rico	823,696	851,884	860,261	851,880
Special Milk Prog.	15,267	15,446	18,342	16,352
Child Nutrition Prog.	3,818,734	4,044,830	4,286,242	4,050,269
Nutrition for Women, Infants & Child	1,577,523	1,701,705	1,852,448	1,710,558
Commodity Supplemental food program	35,993	0	0	11,998
Food donation program	183,371	188,254	193,937	188,521
				Provides cash or commodities to improve diets of elderly, indians, and minorities.
Human Nutrition Info. Ser. (HNS)				Conducts surveys of nutritional needs and diet possibilities. Provides consultation and information to public.
Salaries & Expenses	8,090	9,649	10,821	9,453
Temp. Emergency Food Assist. Prog. (TEFAP)	48,725	48,496	48,172	48,464
Agricultural Marketing Ser. (AMS)				Helps states to purchase and distribute food to the needy
Section 32 (AMS)	359,658	391,003	382,040	377,567
				Funds purchases of commodities distributed to needy people through the FNS food programs described above
(d) Decoupled income support:	0	0	0	0

Note: Footnotes at end of table.

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Supporting Table 4
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AGRICULTURAL NEGOTIATION SUPPORTING DATA
DOMESTIC SUPPORT: UNITED STATES OF AMERICA
Measures Exempt from the Reduction Commitment

Agency and program, by measure type	Outlays (thousand dollars) 1/				Description of program
	1986	1987	1988	1985-88	
(e) Income insurance and safety-net programs:	0	0	0	0	
(f) Payments for relief for natural disasters	572,785	89,228	3,478,915	1,380,313	
Commodity Credit Corporation (CCC) Crop disaster payments (crop year)	567,139	0	3,408,268	1,332,342	Under the Food Security Act of 1985 and the Disaster Assistance Act of 1988 and 1989, assistance is provided to crop producers suffering from natural disasters. Assistance is provided if production losses are at least 30%.
Emergency feed program (fiscal year) Emerg feed-ass prog (fiscal year) Forage assistance program	996 2/ 0	85,800 2/ 0	71,824 2/ 0	52,873 2/ 0	Compensates livestock producers for feed crop disasters Compensates livestock producers for feed crop disasters Compensates livestock producers for pastures damaged by drought or related conditions (1988 disaster act).
Tree assistance program	0	0	0	0	Compensates producers for loss of tree seedlings due to drought or related conditions (1988 disaster act).
Farmer's Home Administration (FmHA) Emergency loans 2/	4,660	3,428	822	2,970	Provides financial assistance to cover actual losses sustained by farmers in declared disaster areas
(g) Structural adjustments through producer retirement programs	0	0	0	0	

Note: Footnotes at end of table

Supporting Table 4
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AGRICULTURAL NEGOTIATION: SUPPORTING DATA
DOMESTIC SUPPORT: UNITED STATES OF AMERICA
Measures Exempt from the Reduction Commitment

Agency and program, by measure type	Outlays (thousand dollars) 1/				Description of program
	1986	1987	1988	1989-89	
(h) Structural adjustment through resource realignment programs:					
Conservation Reserve Prog	610,146	526,524	459,377	532,016	
	23,146	267,024	291,477	193,882	Critical soil erosion is reduced through 10 year rental agreements to establish permanent cover crops on cropland
Dairy limitation program (FY payments)	567,000	256,800	187,800	336,183	
					Payments were made to producers agreeing to terminate production for a 5-year period
(i) Structural adjustment through investment aids:					
Farmer's Home Administration	201,254	111,546	81,801	131,840	
	201,254	111,546	81,801	131,840	Program includes short, term and long term loans made at preferential interest rates and loan guarantees. Eligibility priority defined in 1974 (amended) determined by status as owner, operator of a family-sized farm in situations of structural disadvantage (cannot obtain credit elsewhere).
(j) Environmental programs:					
Ag. Stabilization & Conser. Ser. (ASCS)	546,972	576,976	717,862	614,503	
Agricultural Conservation Prog	136,897	157,511	202,741	166,363	Conservation of soil and water through cost share agreements
Colo. River Basin Sain. Control	0	1,284	3,568	1,617	Water quality for down stream users enhanced by information/cost sharing
Weir Bank Prog	8,326	9,319	6,744	9,200	Conservation of wetlands through 10-year contracts with producers
Emergency Conservation Prog	7,103	4,937	4,763	5,506	Assists in funding emergency conservation measures necessary to restore land damaged by natural disasters.
Soil Conservation Service (SCS) Conservation Operations	346,276	361,819	449,699	365,931	To promote conservation of soil and water, SCS provides technical assistance, conducts soil surveys, and assesses erosion factors
Great Plains Conservation Prog	20,040	17,531	20,823	19,465	Cost share contracts for 3 to 10 years are used to help landowners implement long term conservation measures
Resource Conserva. & Develop	27,139	24,403	27,147	26,230	Assists individuals and localities to develop area-wide plans for resource conservation and development

Note: Footnotes at end of table.

Supporting Table 4
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AGRICULTURAL NEGOTIATION SUPPORTING DATA
DOMESTIC SUPPORT, UNITED STATES OF AMERICA
Measures Exempt from the Reduction Commitment

Agency and program, by measure type	Outlays (thousand dollars) 1/			Description of program
	1986	1987	1988-89	
Farmer's Home Administration (FmHA) Soil and water loans program 3/	179	152	177	163
(k) Regional assistance programs:	0	0	0	0
(l) Other:	0	0	0	0
Grand Total:	23,305,571	23,756,648	25,231,177	24,088,468

1/ Unless otherwise specified, data are outlays for fiscal years.

Outlays were excluded from domestic United States tables if not related directly to internal support of production agriculture.

Wages and salaries and administrative expenses were excluded except where such outlays reflect the level of services provided to agriculture.

2/ Value of subsidy on feed distributed under the Emergency Feed Assistance Program is unavailable. Pounds of feed so distributed for FY 1986-88 were (lbs.) 1,880,009 for FY 86, 4,676,875 for FY 87, 316,893,702 for FY 88, and 620,944,327 for FY 89.

3/ Derived as the difference between FmHA and commercial interest rates times the value of loans made during the year. Data also include budget outlays for recognized basis on FmHA loan guarantees. Farm Credit System Programs are not included because loans made in 1986-88 were not subsidized. The Farm Credit Amendments Act of 1986 forbids the FCS from under pricing its competition. Also, the FCS interest rates are greater than commercial rates, and adjusting announced rates for the mandatory stock purchase requirement paid by borrowers without compensation.

URUGUAY ROUND: INTERNAL SUPPORT **LIST OF U.S. POLICIES INCLUDED IN AGGREGATE MEASURE OF SUPPORT**

The following list of programs in the 1986-88 base period is included in the aggregate measure of support (AMS) for each commodity. The sum of the AMSs for all commodities and the sector-wide AMS are subject to a Uruguay Round reduction in internal support of 20 percent. The United States has already met the reduction commitment because of farm and budget legislation. Current deficiency payments paid on 85 percent or less of base level of production are exempt from the reduction but are subject to Article 13 (Due Restraint) of the Agreement on Agriculture. Policies such as marketing loans that have been introduced since the base period would be included in the AMSs.

Barley	Basic deficiency payments, 0-50/92 deficiency payments Diversion payment Certificate premium Loan forfeit subsidy Storage payment Commodity loan interest subsidy
Beef	Government purchases
Corn	Basic deficiency payments, 0-50/92 deficiency payments Diversion payment Certificate premium Loan forfeit subsidy Storage payment Commodity loan interest subsidy
Cotton	Basic deficiency payments, 0-50/92 deficiency payments Diversion payment Certificate premium Loan forfeit subsidy Marketing loans Loan deficiency payment Extra-long staple cotton (ELS) payments Inventory protection payment First handler payments Storage subsidy Commodity loan interest Fees and levies
Dairy	Price support/quota Dairy indemnities State subsidy Dairy assessment

Honey	Marketing loans Loan forfeit subsidy Commodity loan interest subsidy
Mohair	Support payments Fees and levies
Oats	Basic deficiency payments, 0-50/92 deficiency payments Diversion payment Certificate premium Loan forfeit subsidy Storage payment Commodity loan interest subsidy
Peanuts	Price support/quota Loan forfeit subsidy Commodity loan interest subsidy
Rice	Basic deficiency payments, 0-50/92 deficiency payments Diversion payment Certificate premium Loan forfeit subsidy Marketing loans Commodity loan interest subsidy
Rye	Loan forfeit subsidy Commodity loan interest subsidy
Sorghum	Basic deficiency payments, 0-50/92 deficiency payments Diversion payment Certificate premium Loan forfeit subsidy Storage payment Commodity loan interest subsidy
Soybeans	Loan forfeit subsidy Commodity loan interest subsidy
Sugar	Price support/quota Commodity loan interest subsidy
Tobacco	Commodity loan interest subsidy Fees and levies

Wheat	Basic deficiency payments, 0-50/92 deficiency payments
	Diversion payment
	Certificate premium
	Loan forfeit subsidy
	Storage payment
	Commodity loan interest subsidy

Wool	Support payments
	Fees and levies

Non-Product-Specific

- Irrigation on Bureau of Reclamation Projects in 17 western states
- Net federal budget outlays for grazing livestock on federal land
- Crop insurance subsidized by the Federal Crop Insurance Corporation
- State credit programs

**GATT/Uruguay Round****AGRICULTURAL PROVISIONS
OF THE URUGUAY ROUND****Including the Disciplines for**

- **Market Access**
- **Export Subsidies**
- **Internal Support**
- **Sanitary and Phytosanitary Measures**

;

The Uruguay Round of Multilateral Trade Negotiations under the General Agreement on Tariffs and Trade (GATT) is the most comprehensive reform ever of the world trading system. On December 15, 1993, after 7 years of difficult negotiations, 117 countries reached an agreement to conclude the Uruguay Round negotiations, with obligations specified in the "Uruguay Round Final Act." This report explains the agricultural provisions of the Uruguay Round GATT agreement, with emphasis on the new disciplines for international agricultural trade.

January 1994
U.S. Department of Agriculture

AGRICULTURAL PROVISIONS OF THE URUGUAY ROUND

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This report was prepared by the Foreign Agricultural Service of the U.S. Department of Agriculture with the assistance of William J. Hudson (The Pro Exporter Network®, Maumee, Ohio).

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Introduction: The Uruguay Round and U.S. Agriculture

The products from over 30 percent of all U.S. crop acres are exported. U.S. farm income has become increasingly dependent upon agricultural exports. Trade has become the key source for growth in farm revenue and employment.

The General Agreement on Tariffs and Trade (GATT) is a multilateral accord, subscribed to by 115 nations, which together account for nearly 90 percent of world trade. Its basic aim is to liberalize world trade and place it on a secure basis, thereby contributing to economic growth and development. Established in 1948, the GATT is the only multilateral organization that lays down agreed rules for international trade. It also functions as the principal international body concerned with multilaterally negotiating the reduction of trade barriers and other measures which distort competition. Thus, GATT is both a code of rules and a forum in which countries can discuss and resolve their trade disputes and negotiate to enlarge world trading opportunities.

Progress in the GATT takes place in rounds of negotiations, of which seven have been completed since 1948. The eighth round, the Uruguay

Round, commenced in 1986. The Uruguay Round is the first to significantly address comprehensive reform to improve conditions of international competition in agricultural trade. No previous round has been as important to U.S. agriculture, or as difficult to negotiate.

After over 5 years of negotiations the Director-General of the GATT submitted a compromise proposal that covered all areas of the negotiations. This proposal, the Draft Final Act, was the Director-General's effort to strike a compromise to bring the Round to a conclusion. The Draft Final Act was the basis for the Uruguay Round agreement reached on December 15, 1993, including the agreement on agriculture.

Export markets are important outlets for most of the principal commodities produced by U.S. agriculture, including wheat, rice, soybeans, cotton, tobacco, and corn, as shown in Figure 1. Altogether, exported products account for over 30 percent of U.S. agricultural acreage, as shown in Figure 2. The export of these agricultural products employs over 1 million Americans, as shown in Figure 3.

With this strong dependence on exports, U.S. agriculture has long been a supporter of freer world trade. Freer trade in all products is a necessary condition for sustainable economic growth and the primary source of new demand for farm products and growth in farm incomes.

The purpose of this report is to introduce the reader to the agricultural provisions in the Uruguay Round GATT agreement. This includes a brief discussion of the policy issues which led to the initiation of the Uruguay Round and a description of the principal mechanisms and provisions addressing trade distortions caused by market access barriers, export subsidies, internal support, and unjustified sanitary and phytosanitary measures. Additionally, this report provides background information on the negotiations and the terminology related to the Final Act.

ISSUES IN THE URUGUAY ROUND

General trade liberalization

1. Tariffs
2. Non-tariff barriers

Sector-specific trade liberalization

3. Natural-resource-based products
4. Textiles and clothing
5. Agriculture
6. Tropical products

Improvement of GATT as legal framework

7. GATT articles
8. GATT codes of practice
9. Safeguards against sudden import surges
10. Subsidies
11. Intellectual property rights
12. Trade-related investment measures
13. Services

Improvement of GATT as an institution

14. Dispute settlement
15. Functioning of GATT system

Each of these areas will have important implications for agricultural trade.

Pat Williams

Throughout history, trade has been a cornerstone of relations--both good and bad--between nations. My home state of Montana has been both a source of trading commodities and a crossroads of trade since before recorded history.

While there are many who believe expanded trade provides some sort of cure all for the economic shortcomings of all parties involved, many of the Montana farmers and ranchers I represent take a somewhat more skeptical view.

They have experience with the U.S.--Canada Free Trade Agreement, they have fears about the U.S. Canada Free Trade Agreement, and they are just now raising their eyebrows at GATT.

They ask questions like: "Why do we always negotiate these treaties on the "fast track", but when it comes to ironing out agriculture's problems of these treaties, we are on the slow track?"

Secretary Espy right now ASCS committees in Montana are conducting meetings in each of Montana's 56 counties, asking farmers what they would like to see in the 1995 farm program. I understand that this same process is taking place in all states where farmers participate in agriculture Department programs.

At these meetings, however well meaning, there's also an underlying suspicion that no matter what farmers say or what sound arguments they put up to back their positions, the farm policy in free trade agreements, and the GATT negotiations will be written by the State Department, the U.S. Trade Representative, the Office of Management and Budget and others.

They wonder if their views will even be considered. They

wonder if GATT, like the U.S. Canada Agreement, merely will provide lip service to looking out for American farmers.

In a study by the Federal Reserve Bank of Kansas City several months ago they looked at the effects of global "free trade" on the AGRICULTURAL economies of American states. In a purely agricultural sense, few states gain very much.

In fact Montana stood to lose very much because of its high involvement in federal programs, its isolation from markets, its near monopolistic transportation system, and its extreme climate and unique soils that offer farmers few alternatives to growing wheat, barley and beef cattle.

Maybe it was wishful thinking, but Montana farmers and ranchers believed the promises of the U.S. Canada Free Trade Agreement before it took effect. As far as they are concerned, its now a broken treaty. They have no market access, they believe Canada is playing unfairly and are disappointed in their government's lack of speed or conviction in standing up for American farmers.

As GATT looms on the horizon, they want to know: What mechanisms will be in place in GATT to rectify trade rule inequities when they crop up?

They also want to know if section 22---which so far has provided no adjustment or relief for Montanans or other American wheat farmers--if that goes out when GATT takes hold, what straws do they have to grasp at, and what can the government do to ensure fair competition between farmers and nations?

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STATEMENT BY THE HONORABLE
BLANCHE M. LAMBERT
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
MARCH 16, 1994

COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON ENERGY AND POWER
SUBCOMMITTEE ON TRANSPORTATION AND
HAZARDOUS MATERIALS
VICE CHAIRMAN

COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON DEPARTMENT OPERATIONS
AND NUTRITION

COMMITTEE ON MERCHANT MARINE
AND FISHERIES
SUBCOMMITTEE ON ENVIRONMENT AND NATURAL
RESOURCES
SUBCOMMITTEE ON COAST GUARD
AND NAVIGATION

Mr. Chairman thank you for holding this hearing and as always, thank you for your commitment to free and fair trade and to opening new markets for our agricultural products.

I am especially pleased that Ambassador Kantor and Secretary Espy are here today and before we begin I just want to offer my thanks and support for the tremendous job that they have done on world trade issues. The commitment of these two gentlemen and of this Administration on trade is unparalleled. Beginning with their revival of and assistance in eventually passing the North American Free Trade Agreement and continuing with the successful completion of the Uruguay Round of the GATT - a task that some thought might never happen - these gentlemen have been there for American agriculture time and time again. I, for one, am extremely grateful as are the farmers in my district.

Although we as a committee on only beginning to explore the details of what was accomplished in December, the preliminary indications seem to be positive. I have always been a firm believer that, given a level playing field, our farmers can successfully compete against any nation in the world. This agreement seems to adopt that philosophy through important gains in market access, export subsidies, and internal supports. Many of the commodities produced in my district will benefit from this agreement, but I have to point out one in particular: rice. Since the Japanese agreed to lift their import ban on American rice, for the first time in several decades Arkansas rice is being shipped to Japan - 22,000 metric tons to date with more sales expected. Not only have we benefitted economically, but their has been a positive shift in the way the two countries perceive each other, and that is a noteworthy achievement.

However, no agreement is perfect and I do have concerns relating to the cotton program and textiles that I hope we will be able to address in the coming months. As we see an increase in demand for value-added cotton products and a decrease in demand for raw cotton, the strength of America's cotton interest are increasingly tied to the textile industry. I want to ensure that adequate attention is given to market access for our products and that questions regarding the treatment of non-GATT members, potential changes to the cotton title of the 1990 farm bill, and changes in Section 22 authority are addressed. Based on the past actions of this Administration, I am sure that these concerns will be addressed. Thank you again Mr. Chairman. I look forward to hearing today's testimony.

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BILL EMERSON
 MEMBER OF CONGRESS
 8TH DISTRICT, MISSOURI

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HOUSE COMMITTEE ON
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STATEMENT OF CONGRESSMAN EMERSON
 BEFORE THE HOUSE AGRICULTURE COMMITTEE
 REVIEW OF THE URUGUAY ROUND GATT AGREEMENT
 MARCH 16, 1994

Mr. Chairman, I thank you and our Ranking Member, Mr. Roberts, for holding this public forum today to discuss a matter vitally important to American Agriculture. America's future relationship with world trading partners has never been more critical and our domestic farmers and ranchers along with related industries will play a crucial role.

World trade is the key to the future of American agriculture. Maintaining our current farm markets is no longer good enough for the average American farmer or rancher. The future economic prosperity of the men and women who ensure the sustained production of food and fiber for the world hinges on our ability to create and expand new markets around the globe.

The farmers of this nation have been greatly encouraged by our nation's efforts to liberalize agricultural trade with our foreign trading partners. World markets change, and our domestic farm producers strive to evolve and adapt with them. Competing against our world competitors is always difficult -- but possible. Competing against a world competitor that will not open their own markets is

impossible. Today, I am eager to learn of our nation's efforts to tear down the unfair trade barriers that the American agricultural producer has faced for years and what challenges lie ahead in implementing the Uruguay Round GATT agreement.

I stand ready to work closely with this Committee in order to ensure the continued profitable livelihood of American agriculture through world trade. Likewise, I am encouraged by the prospects of a closer trade relationship with our GATT partners and the benefits that American agriculture may gain from such an agreement. The world is changing and American agriculture must be poised to adapt to these global changes. Now, we have the opportunity to redouble our energies to win at trade and we must continue toward that goal.

OPENING STATEMENT
OF THE
HONORABLE STEVE GUNDERSON OF WISCONSIN
MARCH 16, 1994

MR. CHAIRMAN:

Thank you for holding this hearing to investigate the impact of the recently negotiated General Agreement on Trade and Tariffs (GATT) on our agricultural producers. As the Chairman knows, I have long been an advocate of expanded trade opportunities for American agriculture. At the same time, we must assure that our producers are competing on a level playing field.

That's why I am growing increasingly concerned about the dairy provisions of the GATT. Compare, for example, the amount of subsidized dairy products that the European Community and the United States will be able to move on the world market in the year 2000:

<u>Commodity</u>	<u>European Community</u>	<u>United States</u>
Butter/butteroil	366,000 mt	21,097 mt
Non-fat Dry Milk	243,000 mt	68,201 mt
Cheese	305,000 mt	3,030 mt
Other Dairy Products	939,000 mt	34 mt
-----	-----	-----
Total	1,853,000 mt	92,362 mt

Simply stated, Mr. Chairman, this is anything but fair trade.

In addition, several countries are offering what can only be described as creative explanations for their noncompliance with GATT. Most notable among those countries is Canada.

Just as the United States will surrender its Section 22 protection for its dairy industry, as a signatory to the GATT agreement, Canada has agreed to the tariffication of its Article XI quotas. When read in conjunction with the Canadian-American Free

-2-

Trade Agreement which requires the elimination of tariffs over the next decade, American dairy products should be entitled to unrestricted entry into Canada around the turn of the century.

Yet, Canada is resisting this interpretation of the trade agreements and country-to-country negotiations are at an impasse. We cannot allow this stalemate to continue. We must insist on the proper application of the GATT and CAFTA agreements if the American dairy industry is to receive any substantive benefit from the GATT.

Another concern that must be addressed during the upcoming decade is the new minimum access for butterfat that will increase the amount of butter and butteroil coming into the country by 5,600 metric tons by the year 2005. If this new access is allocated on a first-come, first-served basis, there is the potential that it will all come into the United States at the beginning of the year and throw the domestic market and producer incomes into a tailspin.

Finally, the issue of the auctioning of dairy import licenses must be carefully considered. While such an auction will raise a minimum amount of offsetting revenue, I have yet to find anyone in the industry who believes that this is a good idea. To the contrary, there is a strong suggestion that an auction of licenses will result in more commodity cheese entering the country rather than branded cheese. Increased imports of commodity cheeses could result in more removals of domestic cheese by the CCC and lower milk prices and higher assessments for dairy farmers.

In short, Mr. Chairman, we have a lot of work to do on GATT implementing legislation before those of us who represent American dairy producers can support this trade agreement. I look forward to

-3-

working with you and the Administration in resolving these difficulties. Again, thank you for holding this hearing to get us started on this process.

Rec Jack Kingston
 1221 Longworth
 Ag. Committee

3/11/94

Talking Points on Current Status of GATT Agreement

You should know that serious concerns remain about the overall effect of the GATT agreement on the U.S. forest products industry. On balance, this agreement -- as currently written -- is not a great deal for the forest industries. I wanted to let you know of my concerns now so we can try to address some of these problems as Congress and the Administration draft the GATT implementing legislation.

Wood Products

- o USTR has worked to achieve the maximum leverage possible in negotiations with Japan on wood tariffs, and we applaud their commitment and their efforts. However, if the agreement is signed as it currently stands, it does nothing for the wood products industry.
- o In fact, it does less than nothing because it allows the Japanese off the hook. After seven years of negotiations to eliminate tariffs on wood products, Japan agreed to do nothing more than what they had already agreed to do under the previous 1990 301 agreement -- a 50 percent cut in tariffs over 5 years.
- o And when Japan refused to go to zero tariffs, 18 other countries pulled back from their zero tariff offers. Japan, in fact, blocked an emerging international consensus. This retreat from zero tariffs for wood products results in a loss of \$8.8 billion in potential new business.

Paper and Paper Products

- o Agreement was reached to eliminate tariffs on paper, but over ten years -- not the originally anticipated five years. The benefits we hoped to achieve in the Round are greatly reduced if tariff reductions are stretched out over ten years instead of five.
- o There is still a possibility accelerated staging could be achieved if enough pressure is brought to bear on the European Commission, and the industry is making every effort to assist our negotiators in that undertaking. However, if they are not successful, U.S. export benefits to the paper industry are reduced by \$3.3 billion.
- o This situation is a classic example of how American industry's commitment to fair and free trade is not reciprocated by our trading partners. The U.S. paper industry agreed to the virtual elimination of U.S. tariffs back in the Tokyo Round. The EC continued to impose a 9 percent tariff on our products. At the same time, European industry took unfair advantage of the open U.S. market. Commerce determined European paper producers were dumping here in 1990-91, and European imports have surged again in 1992-93. Yet the Europeans expect this industry to wait another ten years for a level playing field.

"Greenlighting" of Environmental Subsidies

- o This provision would allow all countries to offer subsidies of up to 20 percent of the cost of meeting new or stricter environmental regulations. This change was added at the eleventh hour without consulting any of USTR's industry advisors. It greatly concerns me.
- o I understand the Agreement limits such subsidies to a series of "one-time measures" to cover the cost of adapting existing facilities to new environmental regulations. I am concerned about how we can limit any additional, unintended benefits to U.S. competitors, such as increased levels of production or improved cost competitiveness.
- o I hope the Administration will work with me and other supporters of the forest products industry to ensure that these subsidies do not substantially disadvantage our industry.

Environmental Work Plan

- o I understand a key element of the environmental work program currently being developed by USTR will be to rewrite international trade rules to provide a legal basis for allowing countries to enforce international environmental agreements by conditioning market access on a country's compliance.
- o I am concerned that these "Green Round negotiations" will not be subject to the checks and balances imposed on most negotiations (e.g., negotiating authority will not be required and governmental decision-making will not be subjected to existing industry advisory committee processes).
- o I hope that is not the case because I believe it would set a dangerous precedent for trade agreements to be negotiated in the dark. I trust that the Administration will ensure that any trade and environmental restrictions are clearly reviewed and vetted through industry advisors before any action is taken.

Conclusion

- o We need to have these concerns fixed before the implementing legislation is submitted for the up or down vote so we can be sure that this agreement protects the interest of the forest products facilities in my district, and the voters who depend on them for a living.

**OPENING STATEMENT OF CONGRESSMAN
TERRY EVERETT**

**FULL AGRICULTURE COMMITTEE
GATT
MARCH 16, 1994**

I would like to take this opportunity to thank the Chairman, Mr. de la Garza, and the Ranking Member, Mr. Roberts, for holding this hearing today. I think the debate on NAFTA last year, while highly charged and contentious, was only a small precursor of things to come.

I feel that the General Agreement on Tariffs and Trade, or GATT, is potentially a large step toward increasing our country's agricultural exports. However, this can only be accomplished with a level playing field which means everyone must play by the same rules.

I know everyone here in the committee knew of my stance against NAFTA. It had nothing to do with "protectionism" or "racism" or any other "ism." Instead, I felt that particular trade agreement was not in the best interest of my district, my state, or the entire country. I still feel that way today.

Now, we are here today to hear testimony from the United States Trade Representative Mickey Kantor, and the Secretary of Agriculture Mike Espy to consider the Administration's views on GATT and hopefully to hear the status of this trade agreement.

As a member of the Agriculture Committee who represents the third largest peanut producing Congressional District, I must again reiterate that this agreement must create a level playing field for this country's peanut producers.

I am happy to note that for the first time in history, peanut butter has a tariff-rate quota based on 1993 import levels. While I think this is a significant first step, I feel that we should set import levels at 1988 levels. For example, let us examine Canada. According to the Department of Agriculture's Foreign Agriculture Service, imports of peanut paste and butter has increased several hundred percent since 1988. I also note that this issue is also the subject of an ITC investigation. We should not reward countries who take unfair advantage of this country's trade laws by transshipping peanuts produced by other countries in order to gain lower tariff rates. This

directly hurts American jobs and American farmers. In addition, transshipment also disrupts domestic supply control programs such as the peanut program, resulting in a cost of millions of dollars to the American taxpayer.

Also, minimum access for peanuts was established based on three percent of the base period 1986-1988. Since domestic consumption had declined during those years because of crop problems and a surge of imports of peanut butter, the actual minimum access level will result in a higher percentage of the domestic market than if current consumption levels were used as a base.

I also want to ensure that quality control of foreign peanuts and peanut products do not deteriorate. As the Secretary and Ambassador are very much aware, the U.S. peanut program has the highest quality peanuts in the world. The U. S. has all but eliminated the threat of the naturally-occurring carcinogen aflatoxin from appearing in our domestic peanut supply by the use of chemical analysis.

Although I am happy to say language from Marketing Agreement 146 was incorporated into the GATT which addresses quality of peanuts and peanut paste, I am concerned that without proper quality controls by USDA, Customs, and FDA, our nation's food supply could be compromised by inferior peanut products. For example, a recent government study concluded that up to 12% of imported peanut products are contaminated. This level of contamination would only increase as our tariffs are reduced over time.

These concerns should be addressed by incorporating into the GATT enabling legislation provisions which would require that all imported peanuts and peanut products meet the same high-quality standards of USDA grade and quality regulations that American producers must achieve. All foreign peanuts and products should also be tested in the U.S. for aflatoxin residue, and not just dependent upon certificates by the producing countries.

I thank Mr. Espy and Ambassador Kantor for appearing here today, and I look forward to their testimony.

Thank you, Mr. Chairman.

The CHAIRMAN. With that, we welcome both of you, and we will hear from Secretary Espy at this time. Or if you wish to defer to Ambassador Kantor.

Secretary ESPY. I would like to invite the Ambassador to go first.

The CHAIRMAN. We have no problem.

Mr. Ambassador.

STATEMENT OF MICHAEL KANTOR, UNITED STATES TRADE REPRESENTATIVE, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Ambassador KANTOR. Since I will go first, I'm going to allow Secretary Espy to answer the agricultural questions.

I counted only five maybes, Mr. Roberts, so you're a little behind there, change those maybes into resounding yeses on all matters. And I think we can and will, and we obviously will continue to work with this committee, led by this Chair, and with the bipartisan spirit in which we have all worked together in the past 14 months, we'll continue to do so. I know Secretary Espy shares that.

Mr. ROBERTS. I appreciate your work on NAFTA. It was a big victory for agriculture and for this country. And let the record show we have five maybes, but I didn't pound my fist on the table. [Laughter.]

Ambassador KANTOR. Mr. Chairman, let me thank you for your efforts in Geneva. You were much too modest. The fact that you and others on both sides of the aisle came to Geneva and really advocated the U.S. position and made it clear to those we were negotiating with there was no daylight, so to speak, between our position, the administration and the Congress, Republicans and Democrats, was enormously important. And your personal advocacy made a great deal of difference. So we appreciate that very much.

It's a pleasure to be here to discuss this agreement. I think it has enormous positive implications for agriculture. I'm obviously not the expert that Secretary Espy happens to be. I think he's the finest Secretary of Agriculture we have had in more than recent memory. And he is a wonderful colleague and friend, and we have worked closely together. And frankly, the results that we've obtained in the Uruguay Round could not have been obtained without his leadership, his negotiating skills, his tenacity, as you said, and the fact that he had wonderful help from his staff, led by Joe O'Mara.

Secretary ESPY. That's why I let you go first. [Laughter.]

Ambassador KANTOR. And now I'm supposed to shut up, right? That's what you told me to do.

This agreement will, as you know, let me just review in general what it does. It cuts tariffs generally by 37 percent. It's the largest trade agreement in history. It protects intellectual property, which is so incredibly important to the future of our country. Agriculture is critical, but so is protecting intellectual property and pharmaceutical consumer goods, entertainment industry and so on. It ensures open foreign markets for U.S. exporters and services.

As you know, 60 percent of our businesses and 70 percent of our employment in this country now are services. So to protect them and to open up foreign markets to our services is as important and

insures developing countries live by the same rules that the rest of the developed nations live by. And that's a big change.

As you know, the Tokyo Round was only really endorsed and adhered to by a small number of nations, 25, 26 nations. And in fact, they did not bind their tariff rates, the others, under the Tokyo Round. All nations will bind their rates within agriculture and manufactured goods. That is enormous. This is called a single undertaking.

And so the rules, the tariff reductions, the protection of intellectual property applied to everyone, developed or not developed. There are some allowances for nondeveloped countries to allow them to phase in these changes, but it is an enormous step forward. It creates an effective set of rules for the first time in dispute settlement, which is in the interest of the United States, while protecting our sovereignty. And it opens up a dialog on trade and the environment.

Let me make it clear. This agreement will not impair the effective enforcement of the U.S. laws. It will not do that. It will not limit the ability of the United States to set its own environmental and health standards. And it will not in any way erode our sovereignty.

The agricultural agreement, frankly, because of Secretary Espy's great work and the others on his staff, is really a marvel both for its scope and its breadth. For the first time, import access barriers, internal supports, export subsidies on agricultural products will be brought under the disciplines of the GATT. All import barriers will be converted to tariffs. Members will reduce tariffs and tariff equivalents by 36 percent on average, with a minimum reduction of 15 percent for each tariff line item.

For developing countries, the commitments are 24 percent and 10 percent, respectively. Let me say in terms of the percent minimum reduction, there are a number of sensitive U.S. products that only have to adhere to that percentage, and I think Secretary Espy deserves a great deal of credit for that.

For products with tariff equivalents, minimum current access opportunities are required and that is why we were able to open the rice markets in Korea and Japan, which are the most notable examples, for the first time. All tariffs will be bound, as I indicated earlier. Domestic support programs which have no, or minimal, trade distorting production effects, and I think you talked about one, Mr. Roberts, are exempted from reduction commitments. Direct payments to producers that are linked to production-limiting programs will not be subject to reduction.

However, trade-distorting support programs will be reduced by 20 percent. Export subsidies must be cut by 21 percent over 6 years and 36 percent of the basis of budgetary outlays.

Let me indicate, Mr. Roberts, that not only were we able in the amendments to the Blair House Agreement to open up the European market, we're going to be able to ship another 7.5 million tons of wheat as well as another 1.2 million tons of vegetable oils. That is extremely important, as you know, to this country. The backloading, so to speak, of the reduction in the export subsidies was in our interest.

And I want to say that again, it was in our interest. And so I think the slight amendment that was made was a good one, not only for us but also for the European Union, but also opened many areas of, and I'm sure Secretary Espy will talk about this, areas of opportunity for our agricultural industry in Europe.

And sanitary and further phytosanitary measures must be based on scientific principles. That was agreed to. We are also able to continue to impose stricter rules than the international standards.

An important achievement in the agreement is a commitment to continue the process of liberalizing agricultural trading the fifth year of the agreement. Reforms in this area, as all of you know better than I, are critical. We're the most competitive agricultural industry in the world. Reducing internal support, export subsidies, getting rid of these pernicious rules by tariffication, including import licensing requirements and other trade distorting measures, is only on the best interest of the United States. Others will profit as well.

But it is in our interest. Trade, as I've said before to you, is not a zero sum game. You can have more than one winner. And there is more than one winner in this agreement.

In conclusion, Mr. Chairman, let me say that in setting the negotiating objectives for the Uruguay Round, Congress clearly signaled its belief that strengthening the multilateral rules of the GATT would make America more competitive in world markets. We succeeded, with the help of the Congress on both sides of the aisle and with the great work of Secretary Espy. We've met those objectives.

And I am convinced that the new multilateral rules agreed to in the Uruguay Round will work together with our own ongoing efforts to increase regional cooperation. America is uniquely positioned to benefit from expanding trade in this hemisphere and frankly, in the world as well. The Uruguay Round builds on our strengths. It will benefit us and the world economy as a whole.

I thank you for your patience.

[The prepared statement of Ambassador Kantor appears at the conclusion of the hearing.]

Mr. VOLKMER [assuming chair]. Thank you very much.

Mr. Secretary.

STATEMENT OF MIKE ESPY, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Secretary ESPY. Thank you very much, Mr. Chairman. I'm delighted to be here, and to Mr. Roberts and the other members of this committee. I notice that the chairman had to step out momentarily. But I would like to reflect with pleasure on his participation, particularly during the final days in Geneva in helping the Ambassador and I to bring this very historic agreement to conclusion.

I also want to recognize Congressman Peterson, because he was there as well during the closing days of this very difficult agreement, as well as staffs from the majority and minority, all very helpful to us as the final gavel fell, rendering in my opinion invaluable assistance as we sat with 116 nations, sometimes late into the early morning hours with the USDA staff, to try to reach schedules that we could all agree on.

So I want to thank this chairman and this committee, both minority and majority, for helping us out.

While we naturally tend to focus on the more dramatic breakthroughs of the Uruguay Round, such as the permanent end of the rice import bans in Japan and Korea, I would like to emphasize the longer term benefits of this agreement.

However, Mr. Chairman, I would say to you that we're very proud of what happened with regard to the opening of the Japanese and the Korean rice market. And this is an occurrence that unfortunately led to the forced resignation of my counterpart in Korea. When he returned to Seoul, he was axed. And I'm proud that the President didn't have the same fate for me. [Laughter.]

In this agreement, which has already been to the benefit of the American rice producer by resulting in a current shipment of over 300,000 tons of rice because of the Japanese typhoon shortfall, that agreement understandably has benefits to the rice producers, but also others within the food chain—the brokers, the truckers, the processors, the millers, the shippers.

And I had a speech this morning to the UFCW, the United Food and Commercial Workers, where I told them, just based on the short-term opening for American rice within the Japanese market, we've already seen an increase in 90 jobs in the Port of Sacramento where longshoremen are now loading that rice onto ships destined for Tokyo. And that should be brought into focus.

But I would like to take just a few moments to put this whole thing into perspective. I would like to characterize this, Mr. Chairman, not as a triumphant end to 8 years of difficult negotiations, but rather the beginning of a process as the Ambassador discussed, a continuum where 116 nations have all agreed to hold hands to walk down the slippery slope of agricultural subsidies.

The GATT was established shortly after World War II when the major western countries recognized the critical role that trade plays in the economic and political development of nations. GATT became a great success, but principally for industrial products, where we've seen tariffs reduced, Mr. Ambassador, by more than 40 percent. And so trade expanded and standards of living grew.

But despite all the success, agricultural trade had not benefited as much as possible from the GATT, because it developed largely outside of the GATT framework. Instead, the agricultural policies that emerged after World War II were really more of a haphazard mix that limited and distorted trade. International trade rules, where they existed, were weak and largely impossible to enforce. GATT panel rulings could be ignored unless the aggrieved party had means to retaliate, unless someone could produce the big stick.

So that was the scene when the Uruguay Round began almost 8 years ago. And our goal was very straightforward—to work toward an agreement that promoted trade growth for our farmers by eliminating all policies that distorted international agricultural trade. This was the goal at the starting point of the negotiations.

Now, I don't have to explain to this committee how important exports are to the income of our farmers and to the U.S. economy as a whole. More than any other committee in this House of Representatives, this committee understands that 30 percent of all the harvested acreage is destined for export markets somewhere in the

world, and I would have to emphasize to this committee that one-third of all the cash receipts destined to the farmer's pockets are cash receipts derived almost exclusively from aggressive export trade.

Perhaps the most telling number to me is that nearly 96 percent of the world's consumers live outside of the boundaries of the United States. So obviously, the greatest future market potential for American food and fiber lies outside of our borders. So when you combine this fact with the obvious fact of the budget constraints that we are living under, the value of export markets as a mainstay of farm income is even clearer.

Although it won't solve all the economic problems for United States agriculture, I believe as the Ambassador has suggested that the Uruguay Round agreement is critical for our farmers because it will begin to open world markets, some for the very first time. I would like to emphasize, though, that this is a continuum, this is a work in progress. The agreement will enable American farmers to do what they do best and do better than any other country in the world, to produce food, feed, to grow fiber and market them at competitive prices in the world market. All Americans will benefit from an agricultural sector that can fully use its productive capacity.

Perhaps more importantly, though, this agreement brings agriculture more fully within the GATT trading system. And so this gives us a significantly improved process for resolving agricultural trade problems. In addition, for the first time, we negotiated an agreement that helps our farmers in four specific areas, market access, internal support, export subsidies and sanitary and phytosanitary rules. Changes in these four areas will be implemented over a period of 6 years, starting in 1995.

What I would like to do is not repeat much of what has already been said by the Ambassador. I just would like to very briefly summarize the main benefits to agriculture in each of these four areas. First of all, in market access. To improve worldwide market access, all tariffs for agricultural products in all GATT member developed countries will be reduced an average 36 percent, and with regard to developing countries, they are under an obligation to reduce by 24 percent.

In some of the most important growth markets for the United States, we achieved some specific and additional market openings that go significantly beyond these tariff cuts. And here I'm suggesting huge openings for U.S. products like beef, pork, poultry, specialty crops and processed agricultural products. But all tariffs for all agricultural products will be reduced. Existing import prohibitions will be converted into visible tariffs through the process of tariffication. And a minimum level of access opportunities will be in these markets.

Again, Japan and Korea, if the GATT is passed, will begin to import rice on a permanent basis in 1995. And we expect that a substantial portion of this rice will come from the United States, principally California, Arkansas, Louisiana, and Mississippi.

Further, the Uruguay Round agreement requires that all import quotas and the European Union system of variable levies and other trade-distorting schemes will be eliminated and replaced with tar-

iffs and tariff rate quotas. So with tariffication, and the subsequent reduction in these new tariffs, we will truly begin to move toward the proverbial level playing field.

I have made these speeches, you've made these speeches, and all I'm saying to you, members of this committee, is that we're beginning to get there in reality.

For the United States, our commitment on market access means that section 22 quotas will be replaced with tariffs and TRQ's, tariff rate quotas. The out-of-quota or second tier tariff initially will afford approximately the same level of protection that was provided by the quotas.

In addition, a special safeguard will be available if there is a surge in imports or if import prices drop significantly. We believe that the impact of these imports on our producers must be viewed in the context of the enormous market access we gain for our exports around the world.

The second element is the element of internal support. The Uruguay Round is the first GATT agreement that disciplines internal agricultural support. Reduction commitments were established on the basis of what we call the aggregate measurement of support. And under this approach, each developed country must reduce its total internal support by 20 percent from the level that existed in the 1986-1988 base period.

Because the United States—and this is important—because the United States has, through budget constraints and other disciplines, already reduced our internal supports by more than the required 20 percent since the base period, we will not need to undertake any further reductions to meet our commitments under the agreement. And that, Mr. Roberts, answers one of your nos.

Third, under the discipline of export subsidies, and this is also very important for this committee, for the first time, GATT rules will effectively discipline the use of agricultural export subsidies. These subsidies are clearly defined and must be reduced by 36 percent in budgetary terms and 21 percent in quantity terms from the same 1986-1990 base period levels. We think that these cuts in subsidized exports will benefit our producers.

Nearly all exports from the European Community are subsidized. A relatively smaller share of our exports are subsidized, as this committee is well aware. With multilateral cuts in export subsidies, the United States can cut export subsidies and remain competitive. This will begin to establish fairness in the world agricultural trading system and improve prices in markets in developing countries.

Yes, Mr. Roberts, the EEP under this will have to be cut by the same level. Yes, the DEIP, SOAP, and COAP will be subject to the reduction commitments of the Uruguay Round. But I tell you, we know our friends in the European Community. And we know that they are going to fund their export subsidies to the fullest, and I would expect, and I would insist, if you will, in addition to our Ambassador, that it would be in the interest of the American farmer to utilize our programs like EEP to the maximum levels established in the Uruguay Round. That takes care of another one of your nos, maybe. Maybe it's a maybe.

In the area of sanitary and phytosanitary requirements, I would just like to suggest very quickly that we have an incredible break-

through here. Because Japan could refuse our apples, these other WTO or GATT nations could refuse whatever we wanted to export on whimsy, on arbitrariness, on fancy and even on politics. And for the first time, the Uruguay Round Agreement ensures that any measure taken by an importing country for the purpose of protecting human, animal, or plant life or health must be based on sound science. Certain international standards are presumed under the agreement to be science-based.

However, if a country chooses to adopt a standard stricter than the international standard, it may do so if it has scientific justification for taking the stricter measure. And we believe, moreover, that these provisions will discourage countries from using unjustified health-related measures as disguised barriers, while maintaining each country's right to protect the health of its citizens.

I would like to say to this committee that this agreement is progressive, this agreement is evolutionary. Looking down the road to 2000, we will see some benefits of the agreement as tariffs and export subsidies are reduced.

But even more importantly, studies suggest that the Uruguay Round agreement will increase world income by as much as \$5 trillion in the next 10 years after the agreement goes into effect. This growth will increase the demand for U.S. agricultural products, particularly products like meat, fruits, vegetables, and other specialty crops, and increased demand for beef, pork, and poultry means that the U.S. feed grain and soybean producers will benefit as well.

Based on the expected range in growth of global incomes, U.S. agricultural exports are projected to increase by \$4.7 billion to nearly \$8.7 billion by the year 2005, and grains will account for almost one-half of this increase. Increased exports, as we all know, means export-related job growth, particularly for high-value and value-added products. And by the year 2005, export-related employment is expected to increase by as much as 190,000 jobs. Increased exports bolster farm prices, increase farm income, and lower Government outlays.

The Uruguay Round agreement is expected to raise the farm sector income over current baseline estimates by as much as \$2.5 billion in the year 2005. And we think that is good news, particularly in today's budget environment.

So, Mr. Chairman, I would just like to say it's great for agriculture, it's great for United States agriculture, and it even will have a benefit on those countries like China, Taiwan, and Russia, or CIS countries of the former Soviet Union, who are not even in the GATT community of nations. Because it has important consequences, because if they want to move into the WTO, they know they have to subscribe to these subsidy reduction disciplines.

So I've presented maybe a very short summary, maybe a longer summary than I thought, of an agreement that has taken a very long time to negotiate. It's not the end of the line, it's just the beginning of the line. Because after the fifth year of implementation, all of the countries will come together again in Geneva to continue the reform process started in 1986.

We will decide how further market openings and reduction of trade barriers and subsidies should continue after the sixth year of

the agreement. I'm not sure that I'm going to be here in the year 2000, but I'm confident that many members of this committee will be.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Espy appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you, Mr. Secretary.

Mr. Ambassador and Mr. Secretary, we have a vote on right now, and I'm going to recess. Do we have any idea about how much time you're going to be able to be here with the committee? We're going to have a lot of questions, and I was wondering if you have a time-frame, Mike? None?

Secretary ESPY. I can stay.

Mr. VOLKMER. The chairman is already over voting. He'll be back in a minute, and I'm sure he'll start the questioning as soon as he gets back.

Secretary ESPY. OK.

Mr. VOLKMER. The committee will stand in recess until the chairman returns.

[Recess taken.]

Mr. VOLKMER. The full committee will come to order.

Secretary ESPY. Mr. Chairman, while we're reassembling, I would just like to say that while I was giving testimony, we had a series of charts and graphs behind me. If any of the members desire further discussions of these graphs in detail, we certainly have—yes. You have your graphs, I understand.

Mr. VOLKMER. We can get autographed copies?

Secretary ESPY. Autographed copies, absolutely. They go very cheap, too.

Mr. VOLKMER. As long as they can be reproduced, that will be fine. We will give them out to the members.

In view of the chairman not arriving yet, we will begin with the questions. And we will be under the 5-minute rule. I will exercise, since I'm not sitting in the chair, I'm going to exercise the right to ask questions first.

And Mr. Secretary, as you know, in past conversations with you, I have had serious questions about the effect of GATT upon our dairy industry. What I'm first concerned about, the immediacy right now has nothing to do with the GATT, but what's going on with DEIP, Mr. Secretary?

Secretary ESPY. Mr. Chairman, under the GATT, the DEIP program is subject to the reduction commitments as outlined by the Uruguay Round. That is, it will also be subject to this 21 percent reduction in the quantity of products covered, and a 36 percent reduction in budget outlay.

Mr. VOLKMER. I can understand that, Mr. Secretary, but I'm talking about the immediate, right now. Why haven't we had any contracts approved or anything? Some of us have been waiting for about a month now for some announcement, and I just asked my staff before I came in this morning whether there had been any announcement yet. We keep hearing it's going to be last Friday and the Friday before and the Friday before. These Fridays keep coming and going.

Secretary ESPY. No other Fridays will be coming. We made an announcement last Friday on the DEIP.

Mr. VOLKMER. We did?

Secretary ESPY. Yes, sir. For the world. We made that announcement already.

Mr. VOLKMER. Well, my staff must have missed it. Thank you very much.

Secretary ESPY. Yes, sir.

Mr. VOLKMER. Now, are you willing, and I believe you are, willing to work on developing a program that would be GATT—

Secretary ESPY. Legal.

Mr. VOLKMER. Legal or within the parameters of GATT that would help with the dairy industry?

Secretary ESPY. Yes, sir. We've discussed it. And I believe in the DEIP approach. But it has to be an approach that would be GATT legal, or consistent with the framework of the GATT, and we are willing to work with you, sir, and your subcommittee in constructing that.

Also, I have to say that under our Uruguay Round schedule, we have an increase in tariffs, of course, for the range of dairy products in the range of 120 to 150 percent. So we, by doing this, by tariffing at such a high level, will protect these commodities and at the same time, the costs of the market access openings that we sought and that we received, we will have access commitments for dairy products specifically all across the world, principally into the European Community.

Mr. VOLKMER. Well, Mr. Secretary, I'm going to have to differ from what I see is going on with that last statement especially. There are openings all over the world.

Ambassador, I would like for you to maybe listen to this a little bit.

But first I would like to say that I have a study before me that's going to be reported this month in one of the dairy journals that will show that at the end of about 4 or 5 years, GATT is actually going to cost my dairy farmer about 50 to 55 cents a hundred-weight on the price of his milk. And that's because we're going to reduce exports, we're going to increase imports, and we're going to have more reduction here in this country, and at the same time our usage is not going to do that.

Now, we have to the north of us, Mr. Secretary and Mr. Ambassador, a country that has had a dairy program that has been very restrictive, without any imports, and that's Canada. It's not only dairy, it's poultry and it's eggs.

Now, are we going to be able to sell milk, good milk in the cartons in the grocery stores in Toronto, and in Montreal? I mean, we've got dairy farmers in Minnesota, Wisconsin, New York, and Michigan who can produce for a lot less, and it can be processed by the industry a lot cheaper than what Canada does it. Are we going to be able to get into Canada and sell that milk?

Ambassador KANTOR. Mr. Chairman, under the Uruguay Round, Canada's article XI, 11 programs come under the disciplines of what we agreed to in tariffication. Because they go to tariffication, their nontariff barriers have to be tariffed and given a number.

Under the NAFTA, as you know, Canada has an obligation to get rid of all tariffs, as we do, between the two countries. Therefore, they are obligated to open up their market in dairy, in poultry, and in eggs. This is a deep concern, as you know, to the Canadians, but legally that is their obligation.

And I think Secretary Espy would verify that statement I've just made. Secretary Espy is currently in negotiations with his Canadian counterpart on this and some other very important issues to this committee.

But let me say that again. There must be tariffication in the Uruguay Round. Canada has agreed to that, and under the NAFTA all tariffs must be eliminated. Therefore, dairy, poultry, and egg tariffs will be eliminated under that program. We're currently in these negotiations, I'm sure Secretary Espy will be willing to discuss those in some way with you.

Mr. VOLKMER. All right.

Secretary ESPY. Mr. Chairman, could I add a word? You're the obvious expert in dairy. However, I would like to respectfully disagree with your analysis on the impact of the GATT on dairy and the resulting reduction in cash receipts for dairy farmers. I have a sheet here which suggests to me incredible openings for U.S. dairy products all around the world.

For instance, just very quickly, the European Union increased market access opportunities for cheese, and I could go through this in great detail, but the European Union will reduce the in-quota duty for a 15,000 ton tariff-rate quota for cheddar cheese, Japan increases market access opportunity. There is a 3,000 ton tariff-rate quota which will grow to 4,500 tons. Korea increases market access opportunities for dairy by establishing a tariff rate quota for whey and reducing tariffs on other dairy products. Malaysia reduces tariffs for cheese and yogurt. Thailand reduces cheeses and whey tariffs. South Africa increases accesses by establishing substantial minimum access to its market.

With regard to Canada, you know that we have a problem with Canada, and as the Ambassador has already said, we consider that these highly protected commodities of dairy and dairy products in Canada should be subject to the NAFTA disciplines, that is, tariffs go to zero. Because we all believe in free trade. That is unfortunately not the position that they are taking at the present time.

But even if they go and subscribe to the GATT disciplines only, they tariff at a very high level, but then even those are reduced over time, over the next 6 years. I have been authorized to travel to Canada on Monday and we will have representatives from the USTR with us, and we're going to be talking about this. I don't know what kind of an outcome we'll get. But we're going to fight as hard as we can for the increased access for dairy and dairy products from the United States into Canada.

Mr. VOLKMER. My time has expired. We'll come back if we have time, a second time around, because I still have questions. But I will now recognize the gentleman from Kansas.

Mr. ROBERTS. Thank you, Mr. Chairman. I want to emphasize to the Ambassador and the Secretary that I am going to be just as supportive and just as willing to work with you on GATT in re-

gards to the concerns that I have as Tom Lewis was on NAFTA. And with that as a background, why—[Laughter.]

And that ended up all right, Mr. Ambassador and Mr. Secretary, so I'm sure we can do that. I know it's a level playing field we're after, I just want to make sure we can afford to suit up. And I know that the GATT talks are not a short story, it's a novel. I just want to make sure that the grain producers, and for that matter, everybody in agriculture, can be around to read the last chapter.

Mr. Secretary, I said before in my statement, and I'm going to quote it again, if this administration wants the farm States' support for the GATT agreement, we're going to have to be assured that the export subsidies legalized by the agreement and sure to be used by our competitors, are going to be matched by our Government. You've done that. You've given us your unquestionable promise. It's EEP to the max in regards to Secretary Espy.

Mr. Ambassador, do I have your commitment that we will use EEP to the max?

Ambassador KANTOR. You've had my commitment on that for 14 months.

Mr. ROBERTS. Yes, sir, I appreciate that. Now, the reason I'm a little less than tenuous on this is that a loss of 100 million bushels of wheat demand equals a 15 cent reduction in price. A 15 cent reduction equals \$200 million in increased wheat program costs. We even had a strange and wondrous vote on the House of Representatives vote last week to zero out all farm programs.

And that was quite a shock to some of us. We have, as I said before, instantly declared secretaries of agriculture where we're on the chopping block and a target. I think that perception is wrong, but that's what we're faced with. The price of wheat at the Dodge City country elevator at the time of the GATT negotiations was \$3.80. It's now down to \$3.05 and headed lower. We've either got to sell it or smell it. We don't have the budget dollars pay for it in deficiency payments.

So that's why I am so concerned, and I appreciate it. Will you spread the word to good old Robert Rubin at the National Economic Council and to Commerce, State, Treasury, and the Office of Management and Budget and somebody named W. Bowman Cutter II, who sits on the policy trade review group? Mr. Cutter can spell agriculture, I'm not too sure he can spell farm. And if we can get your assurance to do that, you tell him you have a barbed wire friend back here on the Ag Committee that's going to insist on this result.

COAP and SOAP. I have a report here from the World Board ASCFAS analysis that says if sunflower oil prices drop this spring in anticipation of SOAP and COAP elimination, and you haven't eliminated it, you have folded it into EEP. But EEP has to go to the trade policy review group.

If we had SOAP and COAP under your jurisdiction, Mr. Secretary, I wouldn't worry about it. Last year, \$50 million was allocated, we used about \$25 million, and \$50 million would certainly be adequate to protect our interests. I know they would be subject to the 21 percent reduction, but we would sure like to have that in your territory.

But what happens if we shift into other competing crops, namely Spring wheat, attention Mr. Peterson, attention Mr. Pomeroy, etc.,

etc. Well, the projection is without SOAP and COAP a switch of 200,000 acres to wheat would add about 7 million bushels to wheat supplies and could reduce the wheat prices by about 1 cent. This would add about \$10 million to wheat deficiency payments, and we're saving \$10 million by eliminating the SOAP and COAP. It's a wash.

Now, on NAFTA, I made the promise to National Sun out in good old Goodland, Kansas, and we made this speech together, Mr. Ambassador, that we needed to export this product down to Mexico. And with the flex acre requirement that this committee agreed on, we said "Hey, out in Kansas, we don't want to be monoagriculture. We want to get into rapeseed and canola and sunflowers." And we built a plant and we have the infrastructure and we're ready to go.

Without COAP and SOAP, or the SOAP program, I'm not sure we can compete. That's my concern. And so if we had a situation where we are folding in those kind of expert programs to match the unfair trading practices of our competitors and it's a wash in regards to the budget, why are we doing it? Why can't we get it back, Mr. Secretary?

Secretary ESPY. Well, we believe in EEP. We believe in SOAP. We believe in COAP. We believe in competition, and as I said in my testimony, and I'm sure that the Ambassador will agree with me, is that sure, we have to sit in these trade councils and discuss these matters with the NEC and State Department and others. But we are not shy about expressing our opinion. And because of that, we have seen, EEP'ed wheat into Mexico which got Canada's attention.

Mr. ROBERTS. I appreciate that.

Secretary ESPY. We've seen EEP'ed wheat into China and in other places around the world. Our only hesitation is that we told our other competitors in Argentina and Australia that we would not compete to assume their historic markets, because they are totally free trade.

And that's our only limitation. We'll continue to do that, subject to these GATT disciplines. A lot of people think that we got rolled in compromising the Blair House in order to get a GATT agreement. I know that you know this, but I want to announce to this membership and this audience that even though we changed the base period for phasing in the cuts from 1986 to 1990 to 1991-1992, that will enable the United States to sell 7.5 million more metric tons of subsidized wheat. Sure, the European Union can have 8 million—

Mr. ROBERTS. Let's call it competitive wheat as opposed to subsidized.

Secretary ESPY. Competitive wheat has also allowed us to use—

Mr. ROBERTS. OK, we're about out of time, Mike. Let me just say when you go down to the Trade Policy Review Group, return with me now to the not so thrilling days of 1980 to 1982, when President Ronald Reagan rode into town and said "I'm going to end the embargo," you know, the infamous Carter embargo. Then for 2 years, we didn't have contract sanctity. We didn't move much product.

And you found Republicans saying "Whoa, wait a minute. There are too many people in this town that think it's their grain, i.e., the Department of Defense and Secretary Weinberger." So finally the Republican leadership said "We're going to take Roberts off of his chain and let the Doberman loose down at the Department of Defense." And we indicated to the Secretary that there weren't going to be many votes his way unless he quit using agriculture as a foreign policy weapon or a trade weapon.

Now, when you meet with the Trade Policy Review Group, maybe you could put a big old hat on me and some sunglasses or something and I could sneak in there and we talk to W. Bowman Cutter II, about at the appropriate time, you could say "Well, I've got this friend here by my side, and we want this EEP used to the max and we want the COAP and SOAP program back." And I would be delighted to go down there with you.

And I thank you for your positive statement and for championing agriculture, sir.

Secretary ESPY. I think they would recognize you under whatever disguise. [Laughter.]

Ambassador KANTOR. If I might make just one very brief comment, this administration, including those you've mentioned, Mr. Roberts, were unanimous in not only support for the Uruguay Round, but supporting our vigorous and aggressive advocacy on behalf of agriculture in these negotiations, including all those you mentioned. By the year 2005, it's estimated that wheat prices will go up as a result of the Uruguay Round itself 8 to 12 percent. And gross farm receipts from wheat will be as much as 20 percent more as well.

I think those are good results, I think Secretary Espy deserves a tremendous amount of credit. But also, this administration was absolutely unanimous and together all the way through, including all those you have mentioned, in making sure we were aggressive and that not only wheat, but all other areas of agriculture were not only protected, but we were able to create a more level playing field in order that U.S. agriculture could benefit all over the world.

Mr. ROBERTS. When wheat gets to \$4 at the Dodge City elevator as a result of all our efforts, well, you all come out, and Matt and Miss Kitty and Pat will make you both honorary marshals.

Mr. VOLKMER. The Chair will now recognize the gentlelady from Indiana.

Ms. LONG. Thank you, Mr. Chairman.

I have a question for Ambassador Kantor, and I would expect that you have been expecting that I would ask a question regarding the dispute resolution provisions, and what that does to our sovereignty in terms of writing domestic law.

Under this agreement, when a domestic law is challenged as an unfair trade barrier, I still don't follow your argument why or how we can ever successfully stop a negative ruling. Because the only way to stop it is with the unanimous consensus on the part of the panel. And the country that initiates the disagreement or levels the charge, that country is always going to vote against the country that they've charged.

So I don't see how you could ever have a unanimous agreement that the country being charged is not in violation. As an example,

if we were to assume that the trade panel rules against a U.S. law, but say possibly an environmental law, then it seems to me that we have only a few options. We can either change the law and that brings us into compliance according to the WTO, or we can be, by not changing the law, we can be ruled out of compliance and then trade sanctions would be imposed against us.

So I don't follow the argument, and I appreciate your remarks and your statement this morning, but I don't follow the argument that this doesn't interfere with our sovereignty in writing domestic law.

Ambassador KANTOR. First, you have to assume the United States is in the business of not living up to its international obligations, which of course you and I agree we are not. Second, let's understand that section 301 and our antidumping laws have been preserved as a result of the negotiating talents of a lot of fine folks in Geneva. That wasn't the situation when we came into office, and it wasn't the situation in the so-called draft final act or Dunkle text. That's been changed.

Third, the World Trade Organization will operate just as the GATT is operated, under consensus rule, so no rule can be changed unless all nations agree. Therefore, of course, we're protected in that regard. Fourth, let me address your question of dispute settlement directly. We're the big winners. The GATT dispute settlement process was ineffective. We were hurt by that.

What we're allowed to do now under this process is one, there is a time certain in which decisions have to be made by these panels. Decisions can be appealed in a time certain. They can't be blocked, in other words, the ruling can't be blocked, you're right, it shouldn't be. And all countries have to live by the decision.

Now, if you assume as I assume that our country is living up to its international obligations, and our problem has been that others have not, then a stronger, more effective dispute resolution mechanism is in our favor.

Fifth, because it's in our favor and because when we have problems we can cross-retaliate under the new rules, which we couldn't under the GATT, we are further protected, especially in the areas of intellectual property. I know that's not a particular concern of this committee, although it does come up in some areas of agriculture which are important to you. It is not a particular concern of this committee, but as a member you are concerned about many areas, not just agriculture. So I would mention that as well.

Last, let me say this. We could be the subject of an adverse ruling. You're absolutely correct. However, then we have a choice. We're not forced to change any law as a result. That's up to the Congress of the United States. We've given up no sovereignty.

Would we then be subject to potential sanctions? Of course we would be. But that would come in a very rare case, only in a situation which would be very extreme. And it would be up to the Congress then, how this body wanted to react in that situation. I believe we have preserved the maximum flexibility while making sure we have an effective dispute resolution mechanism which is, I think, important to this country.

Ms. LONG. But you do agree that if there is a—that if a charge is leveled, that we are in violation, that we have a trade-distorting

policy, environmental, labor law, whatever. But if that charge is leveled, it's very difficult to get a unanimous vote that—

Ambassador KANTOR. No, I don't agree. There is a GATT panel convened. Let's say country *x* complains against the United States, saying something we're doing either violates the rules of the World Trade Organization or it's trade distorting, as you say, and it's brought before a panel. The panel has to rule that first they're correct. We can appeal. Now, we can't block the final ruling unless every country agrees with our appeal. You're right about that. But it has to go through a process. Let me just say another thing—

Ms. LONG. And let me say that that's where my concern lies, that because you would have to have unanimous agreement that we are not in violation and then that leaves us the two courses of action.

Ambassador KANTOR. I'm sure it's my fault, I'm not being articulate enough.

Ms. LONG. Oh, I'm sure it's my fault.

Ambassador KANTOR. You first have to have in the case you're positing a speculative case that we would be found to be in violation. We have every right, under more transparent, more open, with better due process WTO procedures, to prove that is not the case. It was not a violation of World Trade Organization rules or our obligations under those rules. That's one point.

If we lose the appeal, then you're correct, we no longer have the blocking procedure.

Ms. LONG. Right.

Ambassador KANTOR. And, that is to our benefit. Because in almost every case, we're going to be the complaining party, as the largest open market in the world, the one who has found our concerns have not been, let's say, addressed properly by other countries or another country.

So I don't share your ultimate concern. I understand what you're saying. I believe in the largest trade agreement in history, setting up a new international organization, which we did, we have preserved as much sovereignty as humanly possible. I believe this Congress has all the flexibility it had before we began, and I think this agreement is only in the best interests of our country.

Ms. LONG. I do not share the same confidence that you do, obviously. Is my time up? I will talk about this later. Thank you, Ambassador.

Mr. VOLKMER. The time of the gentlelady has expired. The gentleman from Wisconsin.

Mr. GUNDERSON. Thank you, Mr. Chairman.

Let me begin, Ambassador, by saying that of all the trade Ambassadors we've had, and I'm saying this as a Republican, I think you're as good as any we've had, and I want to compliment you publicly, and that's quite a statement when you consider that people like Clayton Yeutter are personal friends of mine. I really think you've done an outstanding job over the past 14 months.

Having said that, Mike, I've got a plea. There is probably no more partisan division in this Congress than the Education and Labor Committee and this morning, the Secretary of Labor, after 14 months, had the Republicans on the Education and Labor Committee over for breakfast and consultation. There's probably no

more bipartisan committee in Congress than the Ag Committee, and you still haven't invited us down.

So I'm going to put all my nice words for Mike Espy in escrow, which will be released at the point that you invite the Republicans down to the Department of Agriculture for conversation, so here's my hint.

Secretary ESPY. Well, that's not exactly true. The first meeting I had, I had in the so-called Secretary's dining room, which is now a public dining room. I had the leadership of this committee down, including Mr. Roberts. And Pat Roberts was there. In fact, he sat at my left side.

Mr. GUNDERSON. Under former Secretaries, they tended to invite all of us down at least once every couple of years.

Secretary ESPY. Could I ask that this committee would perhaps look at the Secretary's ceremonial or entertainment budget, because it has been cut. [Laughter.]

Let me tell you, I'm not sure I can afford corn flakes.

Mr. GUNDERSON. We'll bring our own, brown bag it.

In the spirit of Mike Espy and Ross Perot, I wanted to give you both a chart. Because as sugar was to NAFTA, I think Mr. Volkmmer has said, dairy is to GATT. And I have to tell you, as one who is a strong supporter of NAFTA, I'm really hard pressed to find out how I can justify supporting the GATT agreement.

And I want to share with you all this particular chart, because Mike, you articulated market access. That market access is for every country in the world, and here's the problem. When you have the GATT agreement implemented for dairy, you will notice that in terms of subsidized commodities, the European Community will be able to subsidize 336,000 metric tons of butter and oil compared to 21,000 tons in the United States. In terms of nonfat dry milk, they will be able to subsidize 243,000 metric tons compared to 68,000 in the United States. In terms of cheese, they will be able to subsidize 305,000 compared to 3,000 by the United States.

And look at this, in terms of other dairy products, that yogurt, that ice cream, that market access you're talking about, the EC will be able to subsidize 939,000 metric tons when GATT is fully implemented to achieve that market access that's open to all countries, compared to only 34 metric tons for the United States.

Now, with those kinds of numbers, can you tell me how I can go to my American dairy farmers and suggest to them that GATT is a good deal for the American dairy farmer?

Secretary ESPY. Well, I could use the "but for" GATT, then the EC would be able to subsidize more than under it, than they would be able to anyway.

Mr. GUNDERSON. That's where DEIP has been helpful. I mean, we're going to end up, as you've said, eliminate DEIP, and hope that the wheat guys don't want to use it all so we can get some of EEP, which you and I know we're not going to get, because Pat Roberts isn't going to give me any. [Laughter.]

And so as a result of that, I have no ability to subsidize, and even if I wanted to, there is no way I can compete effectively with those kinds of numbers for the EC.

Secretary ESPY. Well, we're not eliminating DEIP, as you noted.

But again, I think the "but for" argument should also be raised. We are under incredible budget reduction pressures within this country, and within this Congress, and who is to say that without a GATT discipline that "but for" the GATT, we would increase the DEIP? I'm not sure that that holds true.

Mr. GUNDERSON. The problem is that in dairy, we have gone from \$2.5 billion in annual supports down to about \$250 million. So there's nothing left in terms of support for the dairy program as it exists today. And to suggest that the budget reductions mandated by domestic pressures is somehow going to adversely impact the dairy industry, they've already done that.

Now, this brings us to the question of Canada. Mr. Volkmer talked a little bit about it, but I have to ask, is there any indication that we're going to make any progress on tariffication with Canada? Because if we don't, then the numbers I have shown you with EC for the rest of the world, combined with the failure of NAFTA to have any net positive results for dairy in this hemisphere, guarantees that dairy is a big loser.

Secretary ESPY. The question is that, if that is the question, then the answer is we hope so. I have been instructed to return there on Monday. We have a negotiation date scheduled on Monday morning. We will be there as long as it takes to reach a deal.

If we can't reach a deal, then we have further actions that could be taken. But you know as well as I do that up there dairy is a protected commodity. They're very interested in continuing those protections. We would like, as I said before, to have them subscribe to the CFTA reduction schedule which they are not willing to do. They want to go the GATT, tariffed at incredibly high levels, and then just allow the very minimum opening that they have to under the GATT.

We're going to do the best that we can. But under the NAFTA, the dairy industry will do very well in Mexico.

Mr. GUNDERSON. I understand that. It's a done deal. I'm talking about the future.

Secretary ESPY. All I can say is we're going to get the best deal we can, and if we can't get one, then we're going to come out fighting.

Mr. GUNDERSON. Do you anticipate in the end auctioning off dairy import licenses, yes or no?

Secretary ESPY. Well, we're discussing it, but honestly, no decision has been made on that.

Mr. GUNDERSON. Thank you, Mr. Chairman.

Mr. VOLKMER. The time of the gentleman has expired. We will now go to the gentleman from Minnesota.

Mr. PETERSON. Thank you, Mr. Chairman, and I want to compliment both Secretary Espy and Ambassador Kantor for the work that they have done.

Mr. Ambassador, we have had our differences, but I was surprised when I was in Geneva at how well things came out. I want to compliment both of you for the work that you did and hope that I helped a little bit over there.

But I have the same, and I'm close to being able to support GATT, which may come as a surprise to you, if we could get this dairy thing fixed. If I could just get—I don't know who can answer

this, but apparently the Canadians are taking the position that the latest agreement is the one that governs. And so according to an article I'm reading on Hoard's dairy amendment, this is their position, and it's your position that you're trying to use the NAFTA to get them to eliminate these quotas.

What I'm curious about is how would we settle that dispute, if that is in fact what the situation is? Who would determine which of these treaties takes precedence? Can you explain that to me?

Ambassador KANTOR. Well, in fact the treaties are totally consistent. And I think it would be consistent with what your reading would be. It's not as if the Uruguay Round, which came later than the NAFTA treaty, does anything to abrogate the NAFTA. In fact, it's consistent. Let me explain that.

By setting up a tariffication process, there are tariff levels set for nontariff barriers, and they are given a number. What it does then is say "Now, any agreement you might have which would eliminate tariffs would be totally consistent with that." There is nothing inconsistent here, and with all due respect for the publication that you cited, they are just wrong. They are wrong legally and they are wrong in terms of what was agreed to.

Mr. PETERSON. The Canadians are not taking this position?

Ambassador KANTOR. They're taking that position, but let me just say that they're on very shaky ground.

Mr. PETERSON. So how do you back them off? I guess that's my question.

Ambassador KANTOR. In the end, we have of course a dispute settlement process, both at the World Trade Organization, which is very effective, which I discussed with Ms. Long, and also under the NAFTA, as you know. If they won't negotiate this in good faith, which we hope to do, and Secretary Espy, as he said, will be there Monday, then we will proceed to enforce our rights.

Mr. PETERSON. How long will that take?

Ambassador KANTOR. Well, it's interesting. Under the World Trade Organization, the maximum is 16 months. They put a maximum, which is really a great step forward, frankly. I know it has probably frustrated you.

Mr. PETERSON. Yes.

Ambassador KANTOR. And even in my short time in this job, 14 months, it's frustrated me. We would have to wait for it to go into effect, of course, but it's a very effective mechanism. We could go immediately to a dispute panel under NAFTA and try to resolve this issue. We hope we can resolve it by negotiation. That is obviously a better way to do it, it's quicker and certainly would be in everyone's interest. They are not on good ground legally.

Mr. PETERSON. I don't know which one of you can answer this, but on the grain issue in Canada, there is ITC's investigation going on and all that. I'm just curious, if you decided to use the emergency section 22, what effect does that have on your trying to implement this GATT legislation which gets rid of section 22?

I mean, it's kind of like we're going at cross-purposes here. In one case, we're telling all of these countries that we're going to get rid of this, and then in the other case, we're potentially putting forward this same action at the same time.

What kind of a situation does that put you in, and is that part of the consideration in determining whether to move ahead with this?

Secretary ESPY. As we say it in both of our testimonies, import protection under the section 22 mechanism would be tariffied. So in other words, if the GATT were to be passed, and we would begin the implementation of it in January, then we would lose the section 22 protection.

Mr. PETERSON. At that point?

Secretary ESPY. Yes, sir. So it would be a short-lived mechanism, in all honesty.

As you said, right now there is an ITC investigation as to whether or not the Canadian wheat trade has a negative impact on United States programs. And that investigation is ongoing. Again, I'll be up there Monday and we'll be discussing this.

Mr. PETERSON. And one last thing. I think Chairman Volkmer asked you, but on the self-help plan that the industry has been working on, and I know you have been involved with, I was told last week that your position was, or the Department's position was that the self-help plan was not GATT-legal, or at some point you had that position and now that has apparently changed, that you now say that there is a way that you think it can be made GATT-legal if we keep within certain parameters, is that the case?

Secretary ESPY. We had a meeting down at the Department and discussed the self-help program with Congressman Volkmer. And our position really hasn't changed as such. We think that the self-help program as it was initially discussed was GATT-illegal.

Mr. PETERSON. Well, now, the new California proposal, will that bring it in or not?

Secretary ESPY. We're willing to discuss it, and we are in fact discussing it. We want to make whatever we do GATT-legal and we don't want to impose any new protections.

Mr. PETERSON. And your position on the self-help is kind of up in the air at this point?

Secretary ESPY. Well, it's going to be the subject of hearings, as I understand, very shortly. And we will be willing to participate in those hearings.

Mr. PETERSON. Thank you.

Thank you, Mr. Chairman.

Mr. VOLKMER. The gentleman from Florida.

Mr. LEWIS. Thank you, Mr. Chairman.

Let me, join those congratulating both of you on the tremendous job that you did in GATT. I think GATT was an outstanding situation that has finally been finalized in general in the interests of the United States. I personally don't think you'll have a problem in passing GATT such as you did in NAFTA down the road.

But Ambassador Kantor, I was pleased to see under this round of the GATT that there was a significant increase in market access to Southeast Asia for citrus products, especially in Japan, Korea, and Thailand. My question specifically relates to Korea and some problems that the fresh citrus industry, as in Florida, has had in exporting to Korea. They have encountered what they believe to be a nontariff trade barrier in the form of the green card system on imported agricultural products. In a situation where there will be

increased market access, how will nontariff trade barriers like this be dealt with in an effective manner?

Ambassador KANTOR. That's where the tariffication process is effective, we believe, Mr. Lewis.

First of all, let me say thank you for the very kind remarks, and regardless of Mr. Gunderson trying to compare his concerns with yours, we all worked together quite well, I thought, in the NAFTA situation, and came to conclusions in many areas of agriculture, if not all, I think, that were quite satisfactory. And we appreciate all of your leadership in that concern.

Second, in terms of tariffication, we have all agreed to take nontariff barriers, one of which is import licensing requirements, and give them a number and then began to reduce the tariff equivalents over a period of time. That is critical in order to get rid of those barriers and to allow entry of our competitive products into Korea, Japan, the European Union and so on.

We believe it is an effective system. It will not be completely effective from day one, obviously. It will take time. But it is a big step in the right direction.

Mr. LEWIS. Do you think that Korea will completely liberalize its tariff on orange juice while reducing the tariff on grapefruit?

Ambassador KANTOR. I was on the phone with the Korean Foreign Minister this morning on a number of issues, including this. It's very difficult, of course, to speak for another country, and I won't. I can only say that we're getting cooperation out of Korea, we're working very hard with them in order to make sure they liberalize, not only in the areas you're speaking of, but in all other areas as well.

Mr. LEWIS. Thank you, Mr. Ambassador.

Secretary Espy, the Florida Department of Citrus has been considered a model participant in the market promotion program, and has relied on participation in the program to open new markets abroad. Under the Uruguay Round, it is my understanding that by the year 2000, the United States would not be allowed to subsidize the export of fruits and vegetables.

Will the department of citrus' participation in the MPP be jeopardized under these provisions of the Uruguay Round? Or would they fall under the internal domestic policy? How would this work out for them?

Secretary ESPY. Yes, sir. The MPP, or the market promotion program, is allowable now and under the GATT will still be allowable.

Mr. LEWIS. Still GATT-legal?

Secretary ESPY. Yes, sir; still GATT-legal. And subject to the budget, of course, the domestic U.S. budget, we are hopeful and expect that we will have aggressive use of the MPP.

Mr. LEWIS. I see. Well, thank you very much, Mr. Secretary and Mr. Ambassador. I think you're both a credit to trade for the United States and to the Department of Agriculture.

Thank you, Mr. Chairman.

The CHAIRMAN [resuming chair]. Thank you, gentlemen.

Mr. Dooley.

Mr. DOOLEY. Thank you, Mr. Chairman. At this time, I would like to allow Mr. Bishop to make a comment.

Mr. BISHOP. Thank you very much, Mr. Dooley, my colleague, for yielding to me. I just wanted to take a minute, I'm going to have to leave, to commend the Secretary and the administration on the work that you've done during the Uruguay Round for Georgia's farmers. For the first time in world trade talks, Georgia's farmers truly feel like they have a seat at the table, and we're very appreciative.

Specifically, you should be commended for the work that you've done in getting a tariff rate in place for cotton. Also for the first time, we have a tariff rate scheduled for peanut paste and peanut butter. You've worked hard to secure these items, and I want to personally thank you and your staff at the Department for the fine work that you've done. It certainly has not gone unnoticed.

That being said, I do have some written technical questions regarding the implementing language for both cotton and the peanut provisions of the GATT treaty. And we will get them to you so that you can have your staff respond. But with that, I want to thank you and the administration and the Ambassador for what you have done in demonstrating your commitment to Georgia's farmers and the farmers of this country.

Secretary ESPY. Thank you, sir.

Ambassador KANTOR. Thank you.

Mr. DOOLEY. Thank you.

I just wanted to compliment both of you. I think that through the good work that you have done on both NAFTA and now GATT, you're really giving an opportunity for U.S. agriculture to be poised on an era of having extensive new market opportunities, which I think is going to result in a healthier agricultural economy for some time.

My concern is, I have some concerns about GATT, but there is absolutely no question that I will be a strong supporter of it. But my question today and my concern today is along the lines that Mr. Roberts identified to some extent. Are we now aggressively implementing the changes in our farm policy that is consistent with this new era of expanded trade opportunities that we are moving forward?

And there are some concerns on my part that while we are seeing the reduction, albeit mandated by the agreement, we are still better off, certainly from a relative stance, from the status quo. But when we have programs which are GATT-compatible, such as the MPP that Mr. Lewis brought up, and yet we see a reduction to the \$75 million, here is a program that really does give us the opportunity to expand markets. And I question the consistency in moving into this new era with a reduction there.

Also, I would hope that when we're moving forward that we understand again that U.S. agriculture is going to need the assistance, and hopefully we will see an increase in some of the FAS activities which are providing great value and expertise in opening up market opportunities that can help with the private sector. And I would hope that that would be reflected, too, in the upcoming budgets.

And the final comment, before I ask you for your statements on this, is in the farm policy that is going to be considered, obviously next year, where we're still embracing a farm policy that all too

often is based on supply management where earlier this year, on my cotton farm, I was asked to set aside 17½ percent of my acreage before it was dropped to 11, this in an international market, as we are with cotton, also doesn't appear to be entirely consistent with this whole idea of moving forward with GATT and NAFTA and expanded market opportunities.

What efforts is USDA undertaking prior to the 1995 farm bill to try to bring in the farm policy, in a little more of a consistency with real international market realities in which we are dealing with? Long statement and question, I apologize for that, Mr. Secretary.

Secretary ESPY. No apology needed. The discussion for the 1995 farm bill has already begun down at the Department. We have several innovations under active review, including the revenue assurance, the idea that Mr. Roberts discussed.

We will be having a retreat, Departmental retreat in May, where we are going to call in experts from all around the country and around the world to give their opinion on these items and these ideas. We are going to be producing white papers that we will disseminate within the Congress, of course, and all around the country with commodity groups and so forth.

So we are beginning to take positions on current programs and changes. But as you know, and as we all know, the way to increase farm income is through zealous and aggressive promotions in the export market. And within our arsenal right now we have a number of tools. The EEP is one. The SOAP, COAP, and the DEIP, the GSM 102-103, and the MPP. And except for the export subsidy programs, as has already been discussed, none of these others are subject to any reductions under the GATT. So it's just a matter of the budget.

And I for one, and I'm sure the Ambassador, certainly the Ambassador, we believe in zealous promotion and the aggressive use of every tool in our arsenal. So we have to decide, how are we going to treat Russia? We have to decide whether we are going to have a philosophy which targets emerging markets or just emerging democracies. We have to decide. For instance, within the nation of South Africa, which is changing its whole society, we have to decide how we are going to export into that market now, and whether any changes need to be taken. So we have to sit down and decide what to do.

But the direct subsidies, such as EEP, are the only ones subject to reductions under the GATT. The rest of them are not. It's just a matter of the budget. MPP is a great program, honestly. I think there are a few problems, and whether or not we make the use of it to the larger companies or just relegate its use only to the smaller, perhaps even the minority firms only. But the fact that it's legal and useful is unquestioned.

The CHAIRMAN. Mr. Everett.

Mr. EVERETT. Thank you, Mr. Chairman, Mr. Secretary and Mr. Ambassador. Mr. Secretary, I have a couple of comments about the peanut program, and I will submit some questions later. I am happy to note for the first time in history that peanut butter has a tariff-rate quota based on 1993 import levels. And while I think this is a significant first step, I feel we should have set those levels at 1988 levels, the import levels at 1988 levels.

I don't think we should reward countries who take unfair advantage of this country's trade laws by transshipping peanuts produced by other countries in order to gain lower tariff rates. Transshipment by Canada disrupts the domestic supply control program such as peanut programs, and ends up costing the American taxpayer money.

Also, Mr. Secretary, I want to ensure that the quality control, like you, of foreign peanuts and peanut products do not deteriorate. For example, a recent Government study concluded that 12 percent of imported peanuts produced are contaminated. This level of contamination will only increase as our tariffs are lowered, I fear.

Mr. Ambassador, a question on the issue of zero/zero tariffs on forest and wood products, I'm concerned that a tariff reduction for these products over 10 years does not fully achieve the objective of gaining better market access for our agricultural products. There are some industry projections that the 10-year phaseout will result in the loss of export benefits of about \$3.3 billion. I feel that by reducing these tariffs over 5 years it would enable our wood products industry to better achieve market access, creating more exports and American jobs.

My question is this. Would the administration be willing to press or further press the European Community to reduce tariffs, to allow the United States to phase out tariffs for wood and paper products over 5 years, and if not, how would the administration address the EC subsidies which further place American exports at a competitive disadvantage?

Ambassador KANTOR. As far as wood products are concerned, as you know, we fought hard for as fast a phase-out as possible, going to zero in tariffs. We had an agreement with the European Union and Canada that would go to zero over 10 years, 50 percent in 5 years and then the second 50 in the second 5 years.

Unfortunately, the Japanese Government, who was part of the so-called quad, only agreed to the first 5 years and then said they would then look at it after 5 years. We have worked hard and engaged the Japanese Government, both as the quad and individually on a bilateral basis, the United States has engaged the Japanese, to try to get a change in that position.

We have been unable to achieve that as of this date. We have not stopped trying. We have even offered a compromise, working with, as you know, the wood products industry to raise the level of tariff reduction the first 5 years, and then of course not have any reduction in the second 5 years. That didn't work, either.

We will continue to work on this. We believe it is a critical industry. As you know, in the paper products industry, we got a zero tariff. We all agreed in the quad, and therefore of course got general agreement in the Uruguay Round itself. So we have not forgotten about this issue, it is on the front burner. We continue to engage our Japanese allies in terms of trying to reduce this tariff to zero as quickly as possible.

Mr. EVERETT. Thank you, Mr. Secretary and Mr. Ambassador. No more questions. I yield back.

The CHAIRMAN. Thank you.

Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman.

I would like to echo the words of virtually every other committee member in applauding the good work of each of you. We have been proud of you.

I have a question that relates to the terrible problem we continue to experience with Canadian wheat. And I expect by this point the intransigence you have seen across the table as you have attempted to bring the Canadians to some type of reasonable and responsible position on this issue has left both of you feeling a measure of the intense frustration we feel in the upper Midwest.

Mr. Ambassador, are you planning to preserve section 22 or its tariff equivalent by reserving this specific remedy, vis-a-vis the Canadians, in the GATT agreement?

Ambassador KANTOR. Let me put it in short run and long run. Thank you for your kind words. Obviously we share your frustration. We know what has happened to the wheat market here in this country. Durum wheat, especially, has been hard hit by the unfair and unfortunate subsidies the Canadians provide to their industry through the Western Grain Transportation Act as well as through the Canadian Wheat Board and in other ways.

We have addressed that quite vigorously. Secretary Espy should be commended for instituting the EEP program into Mexico where we have recaptured, as you know, the market we had lost because of these large subsidies the Canadians had provided to their industry.

As for section 22, obviously we have an ongoing investigation by the ITC now. They plan to finish in July. We don't know what the outcome of that investigation will be. That investigation was at the initiation of the President.

Two, Secretary Espy has indicated he is going to resume his negotiation with the Canadians on Monday to try to address this problem. The Canadians have been somewhat forthcoming in some areas, not in others that are critical in terms of the volume of wheat that they are shipping into this country.

Three, when the World Trade Organization comes into effect, and that could be as early as January 1, 1995, or as late as July 1, 1995, we will then of course convert all our section 22 quotas to tariff equivalents, and we only have to reduce them, as you know, the minimum of 15 percent over 6 years.

So there are some protections here. I think we have acted in a vigorous and aggressive manner with regard to wheat. However, the problem still persists with the Canadians. I would like to report we had resolved it, but we haven't.

Mr. POMEROY. I understand that the interrelationship of GATT vis-a-vis the Canadian Free-Trade Agreement would reduce the tariff, unless section 22 was added to our tariffication schedule, to zero, therefore being an applicable remedy to other countries but not to Canada, the country very much at issue.

Ambassador KANTOR. That's theoretically correct. This is a situation, frankly, that I think is susceptible to negotiation. Because the Canadians are in grave jeopardy with regard to dairy, poultry, and eggs, as you know. Secretary Espy certainly could talk to this situation more precisely than I can. He has led our negotiations for our country. And so I would turn to him.

But I think it's fair to say that the administration has tackled this problem vigorously from nearly the first day we came into office and will continue to do so.

Mr. POMEROY. Mr. Ambassador, we have had meaningful visits. They just have yet to be translated into meaningful relief. Durum is a problem, Spring wheat is a problem, barley is a problem. We had in North Dakota a matter of several weeks ago farmers in 20-degree-below windchill weather protesting on the border. This is not in the character of what usually transpires on 20-degree-below days along the North Dakota-Canadian border. I can't tell you how bad the situation is.

And the last thing the Secretary needs as he resumes his negotiations are signals from the administration that we're going to reduce the range of response that we can bring to bear against the Canadians, such as section 22. I think we need to send, the administration needs to arm the Secretary with the very real and imminent prospect of unilateral action, or the Secretary is in for another frustrating trip north.

Mr. Secretary, I would be very interested in your response.

Secretary ESPY. Well, your frustration is evident. Our frustrations are similarly evident. It's an incredibly difficult item to try to undertake. But I would tell you though, no news is good news at this moment. Because we have been to Ottawa, we have been to Toronto, they have been here, we've talked in Geneva, and we could have reached an agreement that you would consider unsatisfactory.

We have walked away from the table because we weren't satisfied. And while the ITC investigation is now ongoing, we haven't stopped working.

Canada is the only industrialized nation which has a State trading monopoly. And while it is GATT-legal, we have tried to raise it time and again to try and tell the world that this country subsidizes the production of wheat, subsidizes the export of wheat, through its WGTA rail subsidies. It imposes end-use certificates. And almost every phase of production, merchandising and distribution is subsidized. That's why we had to take a very aggressive posture with regard to recapturing our markets that it embraced through its subsidies. And we got their attention.

We hope that the Monday discussion will yield a substantial consensus. We seek an elimination or at least a substantial reduction in the rail subsidy. We seek an elimination of the end-use certificates. We seek some sort of transparency with regard to the practices of the Canadian Wheat Board. We do.

We seek a cap, a voluntary cap, hopefully, on wheat imports into the United States at a level that everyone can live with. That's what we want to achieve. That's what we seek now, and that's what we will continue to pursue. And I hope that we will get it. If we don't get it, then we will take further action.

Mr. POMEROY. Thank you very much. Godspeed and good luck in those negotiations.

Secretary ESPY. Thank you.

The CHAIRMAN. Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman.

I want to associate myself with the remarks that have been made earlier about the both of you and the accolades that have been thrown at your feet. I think especially with reference to trade matters, you represent a very dynamic duo and I appreciate very much what you've done.

Mr. Secretary, after all the work you did on NAFTA, I'm sure you're a little tired of coming back up here. But it's good to see you.

Secretary ESPY. I'm never tired of coming here.

Mr. BARRETT. Mr. Ambassador, I appreciate your taking the time especially after all you've gone through as well. I would even go so far as to agree with my colleague from Wisconsin, Mr. Ambassador, when he mentioned the previous Ambassador. You will understand the importance of this comment when you realize that Mr. Yeutter and I have been long-time close personal friends. His family farm is 20 miles from my hometown. So thank you very much for what you've done.

Ambassador KANTOR. I appreciate that very much.

Mr. BARRETT. I guess very quick because of a vote coming up, Mr. Chairman, I continue to be concerned about our pay-as-you-go regulations that we now find ourselves living under, we figure if \$14 billion that's around to implement GATT, what proposals against it does the administration have?

Ambassador KANTOR. You're absolutely correct. It appears that it will cost in tariff reductions about \$13.9 billion over 5 years with regard to our obligations under the Uruguay Round. As you know, that \$13.9 billion represents a tax cut for the American consumers. It will lower the price of products here in this country, which is good news.

It's also good news that we will receive about \$3 in Federal revenue for every \$1 of tariff cut, that's about \$40 billion over 5 years. But under the static budget process that has been adopted, without criticism, the fact is that you can't count that. Therefore this tax reduction and the increase in revenues can't be taken into account because this is a static, not a dynamic, budget situation, as you correctly point out.

Director Panetta is working hard now to find offsets, offsets, to take care of this situation over a 5-year period of time. We are hopeful, as we were able to do in the NAFTA, that we can accomplish satisfying this budget requirement as we proceed forward. We are not considering any other method, at this time, of addressing this issue.

Mr. BARRETT. Thank you. At the appropriate time, then, we're going to be looking at offsets?

Ambassador KANTOR. Yes, sir.

Mr. BARRETT. And very quickly again, even if we use the fast track authority, what are we looking at in terms of a time line for implementation? It seems to me that there's a crunch, that we're going to be facing for implementation of regulations, drafting regulations, etc.

Ambassador KANTOR. We believe, assuming we address, and I assume we can, the concerns over offsets or the pay-go system, that we can have a final bill here, implementation bill, with the Uruguay Round, by the middle of June if not early June. We're already working with committees of the Congress in talking about imple-

mentation legislation. The President will sign the Uruguay Round on April 15. We will have enough time, we believe, in the so-called nonmarkup process between April 15 and early June to finish that work, and bring a final bill back to the Congress.

As you know, the average number of days it's taken to pass trade bills under the fast track procedure has been about 13 legislative days. And so we believe that we can finish that this year. We hope that we can. Obviously, we have some challenges, including the one you've articulated here this morning.

Mr. BARRETT. So you think by the end of the calendar year, by the end of this session, it will be put to bed?

Ambassador KANTOR. That is our hope. Obviously we are working with Congress, we are consulting with leadership on both sides. There is a heavy and important agenda that all of you face this year. The administration has some important issues including health care, welfare reform, the crime bill, the budget, that are going to be before this Congress.

However, this is also important to the administration and we will continue to seek solutions to the pay-go problem in our desire to get this Uruguay Round ratified and the implementation bill ratified this year, in order that the World Trade Organization can go into effect as soon as possible. It's in our interest that it does.

Mr. BARRETT. Thank you.

Thank you, Mr. Chairman.

Mr. VOLKMER [assuming chair]. We will now have the gentlelady from North Carolina.

Mrs. CLAYTON. Thank you. I want to also add my compliments, both to the Secretary and to the Ambassador, for the fine work you do in representing the interests of agriculture, in this country as well as abroad. And I want to acknowledge, I see the GATT overall general purpose as allowing us to have greater access to the market. But you could understandably note that many of us have some provincial or parochial interests, as we try to make this global competitiveness work for all of us.

I'm particularly interested, and I will submit in more detail to you in writing because of the time, but in terms of peanuts and in terms of textiles, peanuts first. Could you just comment, some of us are interested in the transshipment that is being conducted through Canada for peanuts right now, and the impact that will have on peanuts.

And the other one is in textiles, I know there has been tremendous effort in trying to increase the monitoring of foreign textile into this country. But just comment how we will make that transition to give some model of comfort and courage to our farmers.

Secretary ESPY. In the question of peanuts, I'm not sure I can speak to the textile question, but with regard to peanuts, we do have a problem with transshipment through Canada. So we hope to impose a tariff-rate quota that would be a two-tier effect, the within quota and the out of quota level, which would take care of the transshipment problem. And over quota imports would be subject to very high tariffs.

For peanuts and peanut butter paste, the tariff rate would be under our schedule 155 percent ad valorem level, which is for shelled peanuts and peanut butter paste.

Ambassador KANTOR. On textiles, as you know, we have done a number of things that were not on the table when we came into office, one, to insist that the phase-out of the MFA over a 10-year period of time be tied to market access. We insisted that the United States be given, and others, the ability in the Uruguay Round to deny through the dispute settlement process growth in quotas, textile quotas, if countries did not provide adequate market access to our products, textiles and apparels.

Two, we've got strong anticircumvention language in the Uruguay Round also to make sure countries couldn't avoid or evade our quota, quotas under the multifiber arrangement.

Three, because of the good work of Ambassador Hillman, we negotiated 23 bilateral textile agreements this year, 23. It's an all-time world record. They are good agreements. They are solid and they are tough, and they have anticircumvention language to allow us to seek treble damages in cases of continued violations of our quota laws.

As you know, we invoked sanctions against the Chinese, who were avoiding and evading our laws. And 5 days later, we obtained an agreement that allows the Chinese no growth this year in textiles and apparel, only 1 percent of the next year for the next 4 years, which is substantially less than the 15 percent growth they've been enjoying each year in the past few years.

We also for the first time, because of Ambassador Hillman's good work, have a cap on silk apparel coming into this country. As you know silk blouses were especially taking the place of cotton blouses, they were so cheap, coming from China.

So we have made great strides in this area. We obviously would have liked to obtain more in the Uruguay Round in terms of a 15-year phase-out versus a 10-year phase-out. But because of the substantial reduction in our tariff cuts, we only cut for the world 11½ percent on our tariffs on textiles, and because of our insistence on market access and our insistence in anticircumvention language, we ran out of allies by the end of these discussions. It would be safe to note the United States stood alone in trying to take the Uruguay Round from 10 to 15 years in MFA phase-out.

But we believe that this agreement serves the industry quite well. We believe it should be supported by the industry and we have had good talks with them since the end of these negotiations.

Mrs. CLAYTON. Thank you, Mr. Ambassador, and thank you, Mr. Secretary.

Secretary ESPY. Mr. Chairman, would I have time to correct a statement I made? I was misreading the schedules that I have before me on the transshipment issue. What we intend to do under the GATT is to establish a quota of 33,770 tons and that is for access from around the world, which would take care of the transshipment problem.

And that would be obviously the quota amount, and that would be a lower tariff for the amounts coming in within quota. Everything beyond that established quota level would be tremendously higher, the tariff applied to it would be tremendously higher, and that would be at a 155 percent level.

So we have discussed this, obviously, with everyone concerned, and that seems to be an approach that—

Mrs. CLAYTON. Will that be on your agenda when you talk in Canada next week?

Secretary ESPY. Yes.

Mrs. CLAYTON. You've gotten that resolved?

Secretary ESPY. Yes, it is. But we're going forward with this nonetheless, multilaterally.

Mrs. CLAYTON. I understand. Thank you very much.

Thank you, Mr. Chairman.

Mr. VOLKMER. Thank you. The Chair recognizes the gentleman from Iowa.

Mr. NUSSLE. Thank you, Mr. Chairman.

I appreciate the opportunity to be briefed today on this GATT framework. I appreciate that and I hope it continues, particularly after we get the enabling language and implementing language.

My farmers back home believe that GATT is a piece of a puzzle, and I would agree with your statements today that it's an ongoing process. But it is also a piece of the puzzle for agriculture.

There are two other pieces of the puzzle that they are very concerned about. Of course, the 1995 farm bill is another big piece of the puzzle, and maybe the entire puzzle for some. And the other is CRP. I'm sure that you don't have an answer today for what the 1995 farm bill proposal will look like.

But could you give us a timeframe? Because one of the things that I think Mr. Roberts, I'm not going to speak for him, but I know he's concerned about this, I share that concern, and that is it will be a lot easier to sell the components of GATT if we see how it fits in the bigger framework, and if we see the puzzle with all of its pieces fitting together.

Could you give us a timetable on when the administration, particularly when you, Mr. Secretary, will be giving us some idea of where you stand on the 1995 farm bill?

Secretary ESPY. As I said earlier, we have already started the discussions. And we would be willing and expectant to participate in any hearings that would be scheduled by this committee. We will be here, we will be at the table and we will participate in a very aggressive way.

But the GATT, as we suggested before, except for the EEP, will not affect any of our domestic programs, our system of deficiency payments, our system of establishing target prices, our whole payment limitation, the questions surrounding all of that. GATT will not have an effect on any of those.

So the question there, the only question, well, the dominant question is the budget aspects of that, which is certainly an element to be discussed within the Congress. So it is an element of a puzzle, as you said. But I would hesitate to have the producers in Iowa wait to endorse the GATT because they are waiting on whether or not we resolve these other budget questions.

Mr. NUSSLE. Well, the concern I think my producers in Iowa have is that every year they have to wait for what the new program looks like, what the little idiosyncracies are every year. So they're waiting every year anyway, and it's very difficult to make their plans.

All I'm suggesting is that yes, the dollar amounts may be fixed. We may know what the budget amounts may be. But what I hear

you suggesting is that the program by and large won't change, that there isn't going to be many changes. If that's true, that's I suppose one direction that we're heading in.

If you're open to new ideas, and maybe completely getting outside the nine dots, so to speak, taking a look at different proposals that have been laid on the table, then that's a different direction.

Secretary ESPY. Well, again, we have already started looking at different proposals. Principally, the revenue assurance proposal coming out of Iowa is something worthy to be reviewed and we are reviewing it. We have put on the table, we introduced last week and we presented to this Congress a reform of crop insurance, a substantial reform of crop insurance which allows producers in Iowa and elsewhere around the country a base level of guaranteed catastrophic coverage up to 50 percent of crop losses, and the ability to buy up under a flexible program within the private market.

And the OMB gave us \$1 billion in the baseline to be able to fund this proposal. So that's not exactly in the farm bill. But it's something that we think was necessary, and we have a substantial proposal on the table.

So some of these items might move separately. But with regard to the fundamental 1995 farm bill proposals, I just couldn't discuss much of that at the moment, because we have them under discussion. In your question, you mentioned the CRP which again is as much of a budget problem as much as anything.

We have about, I think, 8 million acres coming out of lease in 1995. And we have a significant problem coming. And it's coming quickly. And I would hope, frankly, Mr. Nussle, that we could reenroll these acres within the CRP program. I'm hopeful that that can happen. But right now, it's a budget problem.

Mr. NUSSLE. Is that going to be your proposal?

Secretary ESPY. That would be my idea.

Mr. NUSSLE. Well, one thing, I appreciate your answers and your comments. I knew asking them that I wouldn't get probably any more specific an answer. It's a difficult question to answer, obviously. And I think you have done a very good job of giving us some new proposals, the crop insurance one in particular.

One thing I would like to do, the Farm Bill Task Force from Iowa is a group that I helped organize and sponsor. And one of the things that we'd like to be able to do is have those farmers come in and brief you, give you a presentation, if you will, on the proposal. I'd like to set that up with you and your office.

The fun part about that is that they are real farmers. They are real people who have real ideas and real solutions to real problems. They are operating under the credo that if you always do what you always did you'll always get what you always got. And they're real concerned about that. And they want to see us at least explore the ideas of going outside those nine dots.

Would you be open to that kind of a meeting that I could host, just to come in? I realize your time is valuable, but you and those folks who you believe would be appropriate to be at such a meeting, so we could give you an idea of what we're talking about.

Secretary ESPY. Absolutely.

Mr. NUSSLE. Thank you very much. I appreciate that.

Thank you, Mr. Chairman.

Mr. VOLKMER. The time of the gentleman has expired.

The gentleman from Minnesota.

Mr. MINGE. Thank you, Mr. Chairman.

I appreciate the chance to at last have an opportunity to pose a couple of questions, and I would like to start off with the concept of aggregate measures of support, which I understand are contained in the agreement, and limit what the participating nations can do in terms of future agricultural programs and possibly the flexibility that we may have to design agricultural policy in this country. Now, we face this with the 1995 farm bill and we will face it with farm bills in years to come.

And really, the question that I have is to what extent does GATT, if approved, restrict our flexibility in designing farm programs in the out years, and let me just use a few examples of things that are currently on the books, and you can either take those or others that may come to mind. We have loan rates that are in effect for farm commodities. Corn, for example, the loan rate just went up to, I think, \$1.79 a bushel.

If we were to increase that significantly, would that violate the agreement? What would happen if we combined that with the acreage reduction program and increasing the number of acres that could be enrolled, it's called ARP? There are a variety of programs, flex acres and so on that I could mention. But could you just briefly discuss that concept.

Ambassador KANTOR. Let me start out, and if the Secretary wants to, obviously, jump in. First of all, you're talking about internal supports. That was part of the original Dunkel draft and remained. It's a 20 percent cut, as you know, over those supports. But it's a trade distorting program. And that's where both the challenge and the opportunity come in, as you correctly point out.

First of all, acreage programs generally are not trade distorting, generally speaking. The program you mentioned is not trade distorting, therefore would not come under it. Second, since they used a 1986 to 1988 base year and if someone corrects me, fine, I think I'm correct about that, and we had the two farm bills that came within that period of time, as you know, we won't have to reduce our programs at all. We've already made the reductions that we've made.

So we have two protections. One, it has to be trade distorting and two, we have made a significant reduction, therefore the 20 percent does not apply to the United States.

Mr. MINGE. Right, but I think in making those comments, you're addressing the existing levels of farm programs that we have in place. And I'm thinking about our flexibility into the future, if we were to make some change in the program, increase the level of support or something else.

Ambassador KANTOR. Yes. Well, let me just say, trade distorting is the key phrase. If it's not trade distorting, then it's not going to violate the GATT rules in this connection. I think it would be unfortunate if I began to talk about farm programs in the future. I'm barely able to handle what I can handle, much less get into Secretary Espy's business. But I think that is the key phrase that we have to look at as we go forward.

Mr. MINGE. And who makes the decision as to whether they are trade distorting or not?

Ambassador KANTOR. Well in some ways, the first decision is made by the U.S. Government in what we do. Second, of course, they could be challenged under the World Trade Organization dispute settlement mechanism, and there would be some ruling.

Mr. MINGE. And that would be the dispute mechanism that you expressed earlier in your presentation?

Ambassador KANTOR. Exactly.

Mr. MINGE. Secretary Espy.

Secretary ESPY. You asked a good question. We are discussing that as I speak here. When it comes to the obvious, the export subsidy-type programs that we could consider increasing in the out years, of course we would have to be subject to the GATT reduction disciplines.

When it comes to a myriad of programs like CRP, WRP, various setasides, acre reduction programs, these are not subject to reduction disciplines. They are not trade distorting and they are allowable, they are appropriate and we don't have to consider any change subject to whatever the multilateral WTO wants us to do.

Now, when it comes to internal subsidies, this is the area where questions could arise. For instance, under the internal support disciplines internal subsidies would be reduced by 20 percent. As I have said in my testimony, the deficiency payment system is exempt from these reductions.

Mr. MINGE. Right. I understand that. I'm thinking in the out years, if there was a political climate and a budget situation that justified an increase and also the market conditions supported the increase, is this something we would have the flexibility to do, putting to one side simply a continuation of what we have in the books now?

Ambassador KANTOR. We do have some flexibility. We have reduced the 1985 and 1990 farm bills so much that we can in effect fill up the gap. We are 50 percent below where we would have had to go under the new rules of the World Trade Organization. So therefore, we do have some flexibility, even with what would be considered trade-distorting practices, or acts.

There's flexibility in that, and flexibility, of course, in nontrade-distorting programs.

Mr. MINGE. Well, maybe a better way to put the question, then, is what limits exist on the expansion of the current farm programs that we have?

Ambassador KANTOR. At risk of being—I'm not going to be flip with this, but some, not as many as others. We can fill up the gap. We can institute new trade-distorting programs or increase other existing trade-distorting programs. We're probably less affected than any of our competitors in this regard because of the 1985 and 1990 farm bills.

Mr. MINGE. Secretary Espy, if we were to hammer on you relentlessly, and you would say, well, all right, I'll increase the loan rate on corn to \$2.36 a bushel, subject to Mickey Kantor's telling me I'm not violating what we're doing with GATT, do you feel you could do that? Would that become a trade-distorting act?

Secretary ESPY. In all honesty, I think the biggest, the greatest barrier to overcome are the barriers relating to our own domestic budget. In order to take the corn loan rate to the level you suggest, I would have to obviously go through OMB and engage in a discussion as to the outlay impact on an increase for loan rates to that extent.

I don't think the GATT would come into play at all, frankly.

Mr. MINGE. Thank you.

Mr. VOLKMER. The gentleman from Michigan.

Mr. SMITH of Michigan. Mr. Chairman, thank you. Mr. Secretary and Mr. Ambassador, also my accolades.

I'll try to say this the best way I can. Right now this country is very vulnerable in terms of where we end up on future budgets, greater expansion of the deficit. Right now, for example, if inflation started coming in and we had a 1-percent increase in the interest rates on the budget resolution that we passed last week, it would add, it would mean that we're going to have to go out and borrow an additional \$144 billion, to add \$144 billion to our deficit.

If the growth of our economy is 1 percent less than we predicted, it would add another \$400 odd billion to the deficit, to the amount we would have to borrow. I'm nervous about trade distortion that might go the other direction. I'm nervous about the fact that we have very low carryovers of feed grain. Some bad weather this spring could tremendously up the prices on those commodities resulting in that kind of extra pressure, food price pressure, for inflation. I see an administration that might be on the verge of desperation in terms of trying to make sure those food prices stay down.

So what I am concerned about, and would like your reaction to, is the possibility of picking on, or saying to Japan, look, you are not providing a fair level enough playing field on trade, therefore, immediately what's going to happen is what happened when we already said that, is commodity prices go down. When we say to China, look, we're not sure that your human rights policies are good enough, we might cut off our agricultural trade, that might go down.

The other things that the administration can do to keep food prices down to protect themselves against inflation is encouraging commodities coming in from other countries greater than they otherwise might. All of this, I assume, falls outside of the GATT negotiations.

So whether we're talking about EEP or whether we're talking about fabricated ways that we might keep commodity prices down, which might be good for the overall inflation and consumers, it would be bad for the producers. If both of you might react to that.

Ambassador KANTOR. I'll react. First of all, I think that what was done in the Uruguay Round, which was a high priority of the President, one of the highest we had coming into office, was to reengage the Uruguay Round and to finish it, fits perfectly into what this administration is trying to do. This administration is disciplined in trying to hold down expenditures, to reduce the budget deficit, to keep long-term interest rates low, to increase the flow of private capital as a result into private business to grow jobs.

It should not escape, I know it's not escaped your notice. We created 2 million new jobs in private industry in 1993, more than

were created in the previous 4 years combined. That's critical. We've got to keep doing that on a bipartisan basis.

Second, we've got to make sure we remain competitive and productive not only in agriculture but throughout our economy. We need a health reform bill to make sure we can compete overseas, because that affects our ability to be productive and—

Mr. SMITH of Michigan. Well, if I can interrupt, what's kept agriculture sort of lean and mean is those low commodity prices. We've seen a tremendous out-migration from agriculture simply because they couldn't get by and raise their kids. So the competition isn't necessarily the total answer to having a farmer get back a reasonable return on his investments.

Ambassador KANTOR. Well, the Uruguay Round—as we are competitive and productive, we need to open markets, because if you have a mature economy, as we do, your population is not growing as fast as your rate of productivity. Therefore, you've got to open, as you know so well, markets abroad.

That's what is so important about NAFTA and the Uruguay Round. By creating new and bigger markets for our products, as I think Secretary Espy said in his opening statement, what we're doing is enabling our farmers, our agricultural community, to grow, to gain more income as is shown by the charts that Secretary Espy was talking about.

And if we do that, what we do is reduce the need to increase our budget expenditures. We employ more people, reduce unemployment in the country. We make sure we keep interest rates low. That's to all of our benefit.

Mr. SMITH of Michigan. The ball I was throwing out there that I want us to keep our eye on is the danger of embargoes, the danger of having the effect of an embargo by simply saying that look, we're concerned about human rights in China, we're going to reduce our ag trade, we're concerned about Japan or any other country for some reason. So we encourage imports, we discourage exports.

Ambassador KANTOR. Oh, yes. We're about opening markets, not closing them.

Mr. SMITH of Michigan. Mr. Secretary.

Secretary ESPY. Yes, I understand the context of the question, and I can appreciate it.

As the Ambassador said, we are about aggressive exporting because of our great ability in this country to be productive. Regularly supply outstrips demand and we have to have a market to export to. If farm income is our goal, and it is our goal, very quickly and generally, you can secure that by aggressive action in three categories.

The first, and obvious one, the North American Free-Trade Agreement, the GATT that we're discussing here this morning, making sure that we can get other countries to reduce their tariff and nontariff barriers, get rid of some of these silly and arbitrary sanitary and phytosanitary barriers and move to a different level of sound science. And that's what we're doing.

Second, making sure we can also increase demand by securing new markets for crops, even in the area of nonfood uses. And instantly what comes to mind is the ethanol issue and the biofuels

issue and soybean ink to make sure that there is a market outlet for these crops, even if it's not a food outlet. And we are doing that as well.

And the third is, and it may be controversial, is our ability within the context of the farm bill to manipulate and jiggle, if you will, items like loan rates. Because that will put cash, immediate cash, into the farmer's pockets. And we did that.

So we believe in increasing farm income, and we have assiduously and aggressively dedicated ourselves to each of the three, which can be done all in harmony.

Mr. VOLKMER. The time of the gentleman has expired. I understand the Ambassador is going to have to leave us in a few minutes. Are there any members who haven't had any questions yet that have a particular question they would like to ask the Ambassador, not the Secretary, because the Secretary will stay. Only questions of the Ambassador.

Ambassador KANTOR. Excuse me, Mr. Chairman, I appreciate that. I can stay for another 10 or 15 minutes.

Mr. VOLKMER. Can you make 15 minutes?

Ambassador KANTOR. Yes, sir. I rarely have this opportunity with this committee.

Mr. VOLKMER. Fine, then we will go right now to the gentleman from Colorado.

Mr. ALLARD. Thank you, Mr. Chairman. I would like to put together some of your thinking on your negotiations as far as the EEP program was concerned. Recently, President Yeltsin said that they weren't going to import grain into Russia. Now, if we don't give most favored nation status to China, which is another huge market for wheat in the United States, isn't that a pretty heavy hit on just one commodity?

Ambassador KANTOR. Well, one, you'd have to—

Mr. ALLARD. You see what I'm saying, we have these big, major markets there, and then you've gone back and hit them again on the EEP, which is supposed to be there to neutralize unfair trade practices.

Ambassador KANTOR. I understand. There is no indication, one, of what we'll do on MFN, and I know you understand that. There are seven different criteria that need to be met, two are mandatory under the President's Executive order, and we'll see what happens later this year.

Two, the fact is that we don't know how China will react. As you know, we have been very aggressive in trying to get agricultural products into China as a result of the 1992 MOU negotiated under the prior administration, for which I give them great credit. It has worked very well in the industrial products area, not as well as we would have liked in the agricultural area, but we are working with the Chinese trade officials to try to get rid of those barriers and open up those markets even wider.

Obviously, we are about opening markets, as we were just discussing. We are going to be as aggressive as humanly possible to not only open markets in China and in Asia, which are the fastest-growing economies in the world, but also in Latin America, which of course is the second fastest growing economy in the world.

Mr. ALLARD. So you see your role as pushing for most favored nation status with China and those markets?

Ambassador KANTOR. I see my role as representing the President of this administration in making sure that his policies are carried out.

Mr. ALLARD. But he's made comments in the media that threaten the most favored nation status of China.

Ambassador KANTOR. I think all the President said was he fully expects the Chinese to adhere to the criteria that were laid out in the Executive order in June 1993, which set out seven different criteria which I know you're fully aware of, two of which were mandatory. And we have not come to any conclusion about MFN status for China because we are not there yet.

Mr. ALLARD. But I think you can see my point. We have at best a very tenuous situation with China. We have a President in Russia who said we're not going to import grains, and then we've taken a commodity which relies on both Russia and China for a major part of their trade, and that's where I think most people in this country at least see most of their markets potentially developing, if the political climate is right. And then we slap some provisions on EEP, and I just, I know these things change around a lot, but I just raise that issue as a concern.

Ambassador KANTOR. Thank you.

Mr. VOLKMER. The gentleman from Ohio.

Mr. BOEHNER. Thank you, Mr. Chairman. Secretary Espy and Ambassador Kantor, I want to welcome you and congratulate you for the job that you've done on GATT and thank you for your help and the work that you did on NAFTA, certainly.

I'm one Member who continues to believe that our efforts to open up trade around the world is beneficial, certainly to America, but certainly beneficial to our trading partners around the world. So I as one Member on the other side of the aisle believe strongly in the efforts that you've made.

A couple of things, though. First, there are a couple of organizations that are spreading information around not unlike NAFTA with regard to, well, the one is the World Trade Organization. It appears that they may be trying to undermine State laws. There is some information to that effect being put out by, oh, I don't know that their name is important. But is there anything in this agreement that you're aware of that would preempt States' abilities to regulate pesticide, as an example?

Ambassador KANTOR. Absolutely not.

Mr. BOEHNER. Second, inasmuch as you've spent a great deal of time working on reducing trade barriers in this agreement, I'm trying to understand how you justify in this agreement putting in a previously nonexistent barrier on peanuts, but now in this agreement we've got a trade barrier, not on peanuts but on peanut butter. Why? Where did this come from?

Secretary ESPY. Do you mean the section 22 barrier? I'm not sure of the barrier you're mentioning there.

Mr. BOEHNER. Well, the section 22 barrier was part of the Recconciliation Act last year.

Secretary ESPY. I understand.

Mr. BOEHNER. But in this GATT agreement, it appears that we're putting in additional barriers for the importation of peanut butter.

Secretary ESPY. Well, the barrier we're putting in is the TRQ. We will no longer be able to use the section 22 mechanism, after Uruguay Round implementation begins, so we're going to tariffy peanuts, and by doing so, you establish a tariff-rate quota for shelled peanuts and establishing a TRQ for peanut butter. And we wanted to place it at a level initially that would afford peanuts the same level of protection, and I'll use that word, yes it is, that it enjoyed under section 22. So we have a low duty that's in-quota for peanuts and for peanut butter.

But above that duty, any other peanut imports would be subject to a much higher tariff. We felt this was necessary as we convert from the present system to one that is of a more free trade orientated. These commodities and these industries have to have time to convert and that's what we're doing. We're shielding them during the transition period.

Mr. BOEHNER. Mr. Secretary, of the quota of peanuts that are allowed to come into the country, I'm trying to understand why Argentina, as an example, has a large percentage of the quota of peanuts that are allowed to come into the country.

Secretary ESPY. Well, in order to reach this agreement, we had to sit down, not just on a multilateral basis, but on a bilateral basis. The staff members of USTR and USDA literally sat down with negotiators from 116 countries, over a period of several years. And it became more intense, literally, day and night, of course, during the last few months, right before the December 15 deadline.

And so this quota amount was as a result of a bilateral negotiation with Argentina.

Mr. BOEHNER. Thank you, Mr. Chairman.

Mr. VOLKMER. I want to apologize to the gentleman from Arkansas. I thought he had already had an opportunity to ask questions, and I have been corrected on that. So the gentleman from Arkansas.

Mr. DICKEY. Thank you, Mr. Chairman. I'm used to being overlooked.

I want to tell you both that not only do I respect you individually and what you're doing, but I like you. I think you're doing a great job. I think other than keeping you at these hearings for long periods of time, I would like to ask this question. What would you all want us to do in Congress to help you?

Ambassador KANTOR. We don't have enough time for me to answer that question, Mr. Dickey. [Laughter.]

First of all, thank you for your very kind remarks. As a former resident and hopefully an honorary citizen of your great State, our great State, I have enjoyed our relationship and your support. We appreciate that.

Second, there are a number of things we can do, but the first thing we need to do is ratify this Uruguay Round. It fits into a bipartisan approach to growing this economy in a way that is helpful to everyone in this country. It is not only cost free, it adds money to our Federal budget, it is a positive way to add employment, to grow our businesses, to make us more competitive, to compete in

a new global economy. And I know we can enjoy the support of this committee and this Congress as we go forward. This is truly a bipartisan effort.

Remember, this agreement did not just pop up on January 21, 1993. This was a result of the hard work of three administrations, two Republican and one Democrat. There is a disease in this town, I've found, that everyone believes that whatever they discover or do happened when they arrive. That is just not true.

So three Trade Representatives, at least three Secretaries of Agriculture, I don't know how many there were during that period, and three Presidents worked on this. It is truly, a congressional approach and the approach of the administrations, a bipartisan effort, deserves support, deserves the support not only of this Congress but from the American people as well.

Secretary ESPY. Jay, that's a toss-up question if I ever heard one, and I will resist the urge to speak at length except to say that those farmers in Stuttgart, Arkansas, that I visited are delirious when they've seen what has happened already. And we have a substantial opportunity to participate in Pacific Rim markets for rice, Japan most notably. And the 300,000 tons that we've already shipped to them, some of that has come from Arkansas. And the producers have seen rice prices increase because of that. They know that if this GATT is passed, that it will be a permanent opening.

Mr. DICKEY. But you see, Mr. Secretary, that's the reason, see, you're doing so much for us and we're not doing enough in response, I don't think, as Representatives. That's what I'm asking. What can we do to help you?

Secretary ESPY. Well, you can first of all vote for this and vote it in.

Mr. DICKEY. All right.

Secretary ESPY. Second, spread the message. Spread the message to some of those groups that did not hold a similar view on the North American Free-Trade Agreement, that this, in that vein, is about 116 times as good.

Mr. DICKEY. Yes, sir.

Secretary ESPY. And it's all about expanding opportunities, improving farm prices, and actually reducing Government outlays. Because for every increase in farm prices, principally the corn price in NAFTA, we've seen reductions in farm program outlays, and that's good for all of us. So just generally speaking, just spread the message and vote it in.

Mr. DICKEY. I want to thank you again, both of you.

Thank you, Mr. Chairman.

Mr. VOLKMER. I have a few questions, I know the gentleman from Minnesota has a few questions, then we will wind this up, unless somebody else over here has any additional questions.

Before I start with questioning, I will make a little statement. Mr. Secretary, during your conversation with the first gentleman from Minnesota, you used a phrase that I used to use, and a phrase that I've corrected on, you used the phrase "GATT-illegal." I've been corrected that that is an incorrect discussion of matters that may be in violation of GATT. So I would appreciate it if we would agree that there is no such thing right now as GATT-illegal.

Secretary ESPY. Contemplatively GATT-illegal. Prospectively GATT-illegal.

Mr. VOLKMER. Well, all right, or possible violation of GATT.

Secretary ESPY. Yes, sir, whatever, Mr. Chairman.

Mr. VOLKMER. I would appreciate that.

The second thing, I would like to have a comment on. You mentioned Washington apples to Japan. We're actually going to be able to sell Washington apples to Japan, and if so, how many? How many bushels? How many apples? I mean, we're selling rice, but when you look at the total rice market in Japan and we're selling—

Secretary ESPY. Here again, Mr. Chairman, USTR and USDA, we have worked together on this. We have had a ban on tree fruit, most tree fruits, principally apples, from principally Washington State into Japan because of their sanitary or phytosanitary objections.

Mr. VOLKMER. Mr. Secretary, you don't have to give me—I know the story about the Washington apples, even though I'm from Missouri.

Secretary ESPY. Yes, sir.

Mr. VOLKMER. And I know for 20 years, they've been trying to, and they get to it, and they didn't get to it. And I'm just asking a simple question—

Secretary ESPY. This year.

Mr. VOLKMER. Whether we're finally going to be able to sell some Washington apples to Japan and I would like to know how many bushels?

Secretary ESPY. Gosh, let me turn and ask. I don't think we know that answer. But when I went to Tokyo, the consuming community there is in an uproar because the indigenous apple costs about \$6.50 and they don't want to pay that amount. So they are looking to buy apples of an equal quality for a reduced price. So let me see if we have more specific information.

Ambassador KANTOR. The potential, as you know, has been 15 years in the making. The Japanese have opened up their market. This is an estimate by the Washington apple growers, it will mean \$50 million to \$80 million in potential market for them.

Mr. VOLKMER. Well, that's very good, because there is no question in my mind that the people in Japan, the consumers in Japan would benefit greatly by our apples. The same way with rice. The housewives in Japan would benefit greatly if we could just not have that limit. Let's say we took that limit off. I'll put maybe 1 million metric tons—

Secretary ESPY. And so would the men, Mr. Chairman. [Laughter.]

Mr. VOLKMER. That would be great.

Let's go to Europe for a minute. Now that we have the sanitary and phytosanitary standards corrected and everything, now we're going to sell beef with our growth hormone to Europe. Is that correct?

Ambassador KANTOR. We have tried to work that problem out. As you know, our beef sales have increased to Europe. That problem has been ongoing. We believe that their—

Mr. VOLKMER. Scientific basis, Mr. Ambassador, there is no scientific basis for excluding American beef from Europe. Now, if we're so high on our sanitary and phytosanitary standards, come on, Europe, let's go, because it's all political.

Ambassador KANTOR. I agree with you.

Mr. VOLKMER. Now, what do we do about it?

Ambassador KANTOR. Well, we have under our dispute settlement mechanism, which I discussed with Ms. Long, we have every right when the WTO comes into effect to go to that and use that effective mechanism to open up that European market if they fail to do so.

Mr. VOLKMER. And I hope we have more luck with it in the future under GATT than we've had under the old GATT with Europe, like on the soybeans. They were found twice in violation and they went ahead, with their subsidies. So you see, when I look at the new one, I still think about what's happening under the old, and I don't necessarily see that much difference coming about. Let's hope that it does. But I also feel that some of these countries can stonewall.

The last comment I have to make goes back to dairy. Mike, I'm sorry, I still have to disagree with you. I have to agree with my ranking minority member from Wisconsin that even though we're going to see areas open up their trade for dairy, we in the United States are not going to benefit a great deal from that trade. The biggest benefit is going to go to Australia and New Zealand, not to us.

And as I have to agree, and that comes right here from your own USDA. This is from the circular series FD194, March of 1994, Department of Agriculture Service, USDA, just put out. And there is no question about that, in my mind. And we're going to reduce our exports, we're not going to increase our exports, total, in dairy. Because we're not going to be able to finance the increase under DEIP.

So how are we going to increase it? Maybe Mr. Ambassador could tell me.

Ambassador KANTOR. I'm not as versed as you or the Secretary, or maybe anyone else in this room, but I do have a sense of two things. One, aside from New Zealand, we're the most competitive country in the world in terms of dairy production. Two, because New Zealand is small and can't supply, obviously, the demand, we're going to do very well.

Three, when you reduce world subsidies and you're the most competitive, other than a very small country like New Zealand, you're going to do very well, and four, because we have capped the European subsidies, it will open up markets that have not been open to us before.

So I agree with your sentiment to only a very limited degree. I think we've done very well here, it's going to be helpful to the dairy industry. I look at some numbers, we have cut the European's tonnage in the dairy sector, I think it's from 15 to 25 percent depending on the category in dairy. That is a very good result for us.

Now, is that everything you might have wanted? No, of course it's not. But we're so much better off with this agreement than

without it. And this competitive industry, meaning the dairy industry in the United States, will do very well.

Mr. VOLKMER. I'm going to again, Mr. Ambassador, have to disagree with you. Because the European Community share of the dairy world market has already declined in the last couple of years. In other words, they're down to where they're going to be anyway. So we're not cutting them anything. We're giving them about what they're doing.

Ambassador KANTOR. That's not correct. In fact, there are some numbers, and I'm sorry I don't have them in front of me, we could supply them for the record, or maybe they're right here.

Mr. VOLKMER. Not the 1990 and 1991. Let's forget that. I'm saying now, what they're doing now as they're going to be able to do under GATT.

Ambassador KANTOR. I don't want to get into the Secretary's orbit here, this is—I'm not an expert at this but I'm fairly confident that they have to reduce further from even 1993 levels.

Secretary ESPY. I know it's difficult and probably not advisable to get into extended disagreement at this moment, Mr. Chairman. But again, the comments you made with regard to EC subsidized exports, the chart I have suggests reductions in their ability to support these products. Butter, butter oil, that will be a 41 percent reduction.

Mr. VOLKMER. Reduction from what, Mike? Reduction from what?

Secretary ESPY. Reduction from the 1991–1992 base period.

Mr. VOLKMER. Forget the base. Let's go to 1993.

Secretary ESPY. Forget the base?

Mr. VOLKMER. Let's go to 1993. Let's do what they're doing now.

Secretary ESPY. We have to start somewhere, Mr. Chairman.

Mr. VOLKMER. Yes, but Mike—no, no. Maybe we can discuss this later, because you ought to be going. But what we're saying is, we're going to be able to export more because Europe is going to have to cut down. My argument is that Europe is not going to have to cut down from where they are right now, therefore where are our markets going to be?

Secretary ESPY. Well, we disagree, then. We believe they will have to cut down from where they are right now.

Mr. VOLKMER. Ninety-three?

Secretary ESPY. Yes, sir.

Mr. VOLKMER. OK.

Secretary ESPY. Absolutely.

Mr. VOLKMER. Send the figures in writing later to my office. I would like to see them.

Secretary ESPY. We can do that. But there is that "but for" argument that the Ambassador mentioned. "But for" the GATT, there will be no discipline. They will be increasing.

Mr. VOLKMER. I'm not arguing that.

Secretary ESPY. Well, you can't dismiss that.

Mr. VOLKMER. Mike, it's not a level playing field.

Secretary ESPY. I don't think any of us said it was a level playing field. It is more of a level playing field than it has ever been before.

Mr. VOLKMER. All right.

The gentleman from Minnesota.

Mr. PETERSON. Thank you.

Mr. Ambassador, I have one more question. Every time I think I've heard everything about the Canadian situation, something else comes up. I just came across a press account here that says that some folks over in the other body have determined that there has been a section 22 in effect against Canada since the 1940's, and that it was suspended in 1974 by the International Trade Commission.

They were asked for a 1-year suspension. And then the previous administrations have suspended it for the last 20 years.

Are you aware of this? Have you ever heard about this?

Ambassador KANTOR. I'm not aware of that.

Mr. PETERSON. Well, you're going to a meeting this afternoon at 5 o'clock where you are going to be asked about this, so maybe you could check it out.

Ambassador KANTOR. I will look into it. If it is, and can be reinstated, and it's already there, I would be more delighted than you are.

Mr. VOLKMER. Excuse me, gentleman from Minnesota, can we interrupt just a minute? I missed another one. I'm not doing a very good job as chairman. Mr. Kingston hasn't been able to ask any questions yet. I didn't know that.

So could I—then you can go back.

Mr. KINGSTON. Thank you, Mr. Chairman and the gentleman from Minnesota. I just have some concerns that the paper products industry in my part of southeast Georgia have raised to me, and what I would like to do is just give both of you a copy of their concerns, and if you could respond to it on a line by line basis, I would certainly appreciate it.

Ambassador KANTOR. Absolutely.

Mr. KINGSTON. OK.

Mr. VOLKMER. The gentleman from Minnesota.

Mr. PETERSON. Do any of your folks know about this?

Secretary ESPY. Yes. We have some institutional memory here. I am told that you are correct, that this was changed in 1974, when we ourselves changed our own internal program toward a deficiency payment section, so then we suspended the section 22. Because we ourselves changed our internal support mechanism.

Mr. PETERSON. So that means that there's no chance that we could use this authority that's in existence, because of that change? Or is it open to discussion?

Secretary ESPY. No, sir, it doesn't mean that at all. There is an ITC investigation underway.

Mr. PETERSON. Oh, we're back to that again.

Secretary ESPY. There is an opportunity to impose an emergency—

Mr. PETERSON. This is not an avenue that is probably going to work.

Secretary ESPY. It's a resurrection of the old. We'll be glad to explore it.

Mr. PETERSON. Also, we have a group out in North Dakota that's asking, this audit that was done, there were three instances where they were in violation. Are you going to make a movement to proceed, or is there any way you can do that if they have actually sold,

have contracts that are below acquisition costs? Is that an actionable item under any of our agreements?

Secretary ESPY. Well, the audit that was done showed some violations. But to be fair, the audit also showed substantial compliance. You know, the question is, whether you agree with the audit, the fundamental—

Mr. PETERSON. Well, I've got some problems with the audit.

Secretary ESPY. Yes.

Mr. PETERSON. But the fact that there were three violations, does the agreement not say that there are not to be any violations?

Secretary ESPY. We would rather get to a permanent solution, we really would. It's in the interests of the United States to negotiate with Canada for what we feel are access reductions on wheat of all types. And when you try to move toward your prior suggestion of resurrecting something since 1974, I'm really not sure what that gets us over the long term, particularly if it's a section 22 action which might not be in compliance with the GATT regime.

Mr. PETERSON. I understand where you're coming from, but you have to understand that our folks are extremely frustrated, and we're just getting tremendous pressure. They're ready to declare war on Canada and want these surplus Patriot missiles up there so we can start. [Laughter.]

And one other thing I just found out yesterday, Mr. Chairman, that under this national highway system, Highway No. 59 that goes all the way across the United States, all the way up from Texas, ends at Thief River Falls, 60 miles from the Canadian border. So maybe there's a message in that. They just stopped the highway. The trucks maybe won't be able to come in any more. [Laughter.]

Mr. VOLKMER. OK, thank you.

And my last comment, and I want to first thank Ambassador Kantor and Secretary Espy for your patience in being here with us today. It's been very informative. Mike, the only thing, I appreciate your answer to the gentlemen from Wisconsin in regard to the cheese licenses. And I personally would just like to urge you and your staff just to discard that idea. It really isn't a very good idea. Let's just find other ways to finance the GATT other than cheese licenses.

So again, thank you very much, we appreciate it.

One other thing, I did forget one thing. Mr. Ambassador, Mr. Secretary, the chairman may have additional questions in writing, since he wasn't able to be here much. I would appreciate it if you would reply to those as soon as possible from the chairman.

The committee is adjourned.

[Whereupon, at 1 p.m., the committee was adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Testimony to the House Committee on Agriculture
Ambassador Michael Kantor
U.S. Trade Representative
March 16, 1994

THE URUGUAY ROUND:
GROWTH FOR THE WORLD, NEW OPPORTUNITIES FOR U.S. FARMERS

Introduction

Mr. Chairman, thank you very much. It is a pleasure to be here today to discuss the Uruguay Round agreement. This historic and far-reaching pact sets the stage for a more competitive and prosperous U.S. economy as we prepare to meet the challenges of the 21st century. I look forward to working with you this spring as we formulate legislation that will implement the Round. I hope the Congress will agree with our conclusion that the Round offers enormous potential for U.S. and global economic expansion.

Mr. Chairman, on December 15, 1993, 117 countries concluded a major agreement to reduce barriers to world markets (in agriculture, manufactured goods, and services) as well as to create a fairer, more comprehensive, more effective, and more enforceable trade rules. In order to ensure the efficient and balanced implementation of the agreements reached, they also provided for the creation of a new World Trade Organization (WTO).

The Uruguay Round trade agreement is the largest, most comprehensive trade agreement in history. The existing GATT system was incomplete; it was not completely reliable; and it was not serving U.S. interests well. The new agreements open up major areas of trade and provide a dispute settlement system which will allow the U.S. to ensure that other countries play by the rules.

The successful conclusion of the Uruguay Round negotiations was an important part of the President's strategy for strengthening the domestic economy. Barely a year ago, President Clinton entered office, faced with daunting challenges in his effort to restore the American Dream.

The economy was stagnant. Unemployment was high, and confidence was down. In just one year, we have turned a corner. Our economy is growing and millions of jobs have been created. People are getting back to work.

But these are just the first steps in preparing our nation for the 21st century. The President is addressing the long-term issues facing our economy.

All of the elements of the President's economic strategy -- reducing the deficit, reforming education, the President's re-employment program, and health care reform -- are geared towards creating jobs and making our country more prosperous. All of the parts work in tandem, each reinforcing the other.

An essential element in this strategy is to open and expand foreign markets. Expanding trade is critical to our ability to compete in the global economy and create high-wage jobs. That is why the President focused so much attention in 1993 on the Uruguay Round, the North American Free Trade Agreement, the Japan Framework and the Asia Pacific Economic Cooperation conference.

The U.S. economy is now an integral element of the global economy. Over a quarter of the U.S. economy is dependent on trade. Where we once bought, sold and produced mostly at home, we now participate in the global marketplace. By expanding our sales abroad, we create new jobs at home and expand our economy.

The United States is positioned economically, culturally and geographically to reap the benefits of the global economy.

Economically, because our farmers and workers are the most productive in the world, and our economy is increasingly geared towards trade.

Culturally, because of our tradition of diversity, freedom and tolerance will continue to attract the best and brightest from around the world, ensuring that we will never stagnate as a people.

Geographically, because we are at the center of a nexus between our historic trading partners in Europe and Japan, and the new dynamic economies in Latin America and Asia.

Our trade policy is guided by a simple credo. We want to expand opportunities for the global economy, but insist on a similar responsibility from other countries.

Trade is a two way street. After World War II, when the American economy dominated the world, we opened ourselves up to help other countries rebuild. It was one of the wisest steps this country ever took, but now we cannot have a one way trade policy. The American people won't support it and the Administration won't stand for it.

For other nations to enjoy the great opportunities here in the U.S. market, they must accept the responsibility of opening their markets to U.S. products and services. Ultimately, it is in their own self interest to do so, because trade fosters economic growth and creates jobs.

The Uruguay Round ensures American producers are trading on a two-way street; that they benefit from this new globalized economy; that they can sell their products and services abroad; and that they can compete on a fairer playing field.

President Clinton led the effort to reinvigorate the Uruguay Round and to break the gridlock, which had stalled the negotiations despite seven years of preparation and another seven years of negotiations.

We did not accomplish everything we wanted to in the Uruguay Round. But, the final result is very positive for U.S. producers and companies. It helps us to bolster the competitiveness of key U.S. industries, to create jobs, to foster economic growth, to raise our standard of living and to combat unfair foreign trade practices. The agreement will give the global economy a major boost, as reductions in trade barriers create new export opportunities, and as new rules give businesses greater confidence that export markets will remain open and that competition in foreign markets will be fair.

More importantly, the final Uruguay Round agreement plays to the strengths of the U.S. economy, opening world markets where we are most competitive. From agriculture to high-tech electronics, to pharmaceuticals and computer software, to business services, the United States is uniquely positioned to benefit from the strengthened rules of a Uruguay Round agreement that will apply to all of our trading partners.

The Uruguay Round

The Uruguay Round is the right agreement at the right time for the United States. It will create hundreds of thousands of high-wage, high-skill jobs here at home. Economists estimate that the increased trade will pump between \$100 and \$200 billion into the U.S. economy every year after the Round is fully implemented.

This historic agreement will

- cut foreign tariffs on manufactured products by over one third, the largest reduction in history;
- protect the intellectual property of U.S. entrepreneurs in industries such as pharmaceuticals, entertainment and software from piracy in world markets;
- ensure open foreign markets for U.S. exporters of services such as accounting, advertising, computer services, tourism, engineering and construction;

preserve the important elements of U.S. antidumping and countervailing duty laws;

- ensure that developing countries live by the same trade rules as developed countries and that there will be no free riders;
- create an effective set of rules for the prompt settlement of disputes, thus eliminating shortcomings in the current system which allowed countries to drag out the process and to block judgments they did not like; and
- open a dialogue on trade and environment.

This agreement will not:

- impair the effective enforcement of U.S. laws;
- limit the ability of the United States to set its own environmental or health standards; or
- erode the sovereignty of the United States.

The Uruguay Round agreement will create a new organization -- the World Trade Organization -- that will support a fair global trading system into the next century and replace the General Agreement on Tariffs and Trade (GATT).

Agriculture: U.S. farmers are the envy of the world, but too often they were not able to sell the products of their hard labor abroad, because the old GATT rules did not effectively limit agricultural trade barriers. Many countries have kept our farmers out of global markets by limiting imports and subsidizing exports. These same policies have raised prices for consumers around the world.

The agriculture agreement is a marvel both for its scope and its breadth. It will reform policies that distort the world agricultural market and international trade in farm products. By curbing policies that distort trade, the World Trade Organization will open up new trade opportunities for efficient and competitive agricultural producers like the United States.

For the first time, non-tariff import access barriers, internal supports and export subsidies on agricultural products will be fully brought under the disciplines of the GATT. No longer will members be able to freeze out imports with protective trade barriers or use their national treasuries to gain market share at the expense of non subsidizing exporters.

When the Uruguay Round began in 1986, there were a myriad of problems in agricultural trade. Indicative of this is the fact

that in the early 1980's, eighty percent of the disputes in GATT were on agricultural trade issues, and most of these involved disputes between the United States and the European Union. It was readily apparent that the exceptions which permitted import restrictions and export subsidies on agricultural products when the GATT was entered into in 1947 were no longer appropriate for the agricultural trading environment of the 1980's.

Aided by the impervious variable levy, the European Union over the previous 10 years had gone from a net importer to a net exporter of most agricultural commodities. Moreover, because EU internal prices were higher than world market prices, export subsidies were used extensively to move surpluses into the world market. In 1985, the EU spent \$6 billion on agricultural export subsidies. Unable to negotiate meaningful disciplines on export subsidies, the United States initiated the Export Enhancement Program in 1985 in order to compete. In recent years, this program has made available approximately \$1 billion of export subsidies each year.

Non subsidizing exporters were frustrated at having to compete in world markets with national treasuries rather than other farmers. Import restrictions, prohibitions and high tariffs in countries such as Japan were also motivations for a broad, trade liberalizing Round on agriculture.

The Punta del Este Declaration set the goals for the agricultural negotiations, It said..."Negotiations shall aim to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines..."

The agreement we reached in December is truly remarkable in its conformity with the objectives that were only envisioned at the time of Punta del Este. The agreement brings into play a new accounting system, i.e., tariffication which converts non-tariff measures affecting import access into tariff equivalents. Likewise, trade-distorting internal support, whether it is provided through direct payments to producers or by market price support, is put on a common denominator basis through calculations called "aggregate measures of support."

Tariffication and aggregate measurement of support provided a way to evaluate the impacts of very different import and domestic policy systems on a common basis, thereby facilitating the negotiations. However, the immediate benefits of the agreement are in the commitments. The most important of these are:

- o Members will reduce tariffs and tariff equivalents by 36 percent on average with a minimum reduction of 15 percent

for each tariff line item. For developing countries the commitments are 24 percent and 10 percent, respectively.

- o For products with tariff equivalents, minimum access and current access opportunities are required.
- o With tariff equivalents, all import access barriers will now be on a tariffs only basis, with two temporary exceptions. All tariffs will be bound--meaning all agricultural products are now covered by the GATT.
- o Domestic support programs which have no, or minimal, trade distorting or production effects ("green box") are exempted from reduction commitments and from countervailing duties.
- o Direct payments to producers that are linked to production-limiting programs will not be subject to reduction. However, trade-distorting support programs must be reduced by 20 percent. (Due to the farm support reductions contained in the 1985 and 1990 Farm Bills, the United States has already met the 20 percent requirement and will not need to make additional changes to farm programs to comply with the Uruguay Round commitments.)
- o Export subsidies are to be cut by 21 percent in volume and 36 percent on the basis of budgetary outlays.

The relative simplicity and straightforwardness of the commitments on export subsidies belie the difficulties in reaching agreement with the European Union. In both 1990 and 1991, the Uruguay Round failed to conclude because of EU intransigence on export subsidies. Last year, EU negotiators tried to back away from a deal that had been struck in 1992, but we were able to strike an agreement that was to our mutual benefit. The reductions in export subsidies can be made in equal installments from the 1991-92 marketing year if subsidized exports have increased from their base levels. This permits both the EU and the U.S. to smooth out the reduction slope for certain agricultural export subsidies. However, at the end of the six year implementation period, export subsidies will still have to be reduced by 21 percent and 36 percent, respectively, from the volume and budgetary outlays of the 1986-90 period.

An important achievement in the agreement is the commitment to continue the process of liberalizing agricultural trade in the fifth year of the agreement. A strong incentive to make further reforms in trade distorting support, import barriers and export subsidies is provided in the peace clause of the agreement. After nine years, "green box" support programs will no longer be exempted from countervailing duties; domestic supports programs which account for more than 5 percent of the value of production will no longer be exempted from the serious prejudice findings of

the subsidies agreement; and export subsidies on agricultural products will no longer be exempted from the prohibition on export subsidies in the subsidies agreement. Negotiations to extend the peace clause will be the opportunity to secure greater agricultural trade liberalization in the future.

Sanitary and Phytosanitary Measures: The Agreement on the Application of Sanitary and Phytosanitary ("S&P") Measures will guard against the use of unjustified S&P measures to keep out U.S. agricultural exports. S&P measures are laws, regulations and other measures aimed at protecting human, animal and plant life and health from risks of plant- and animal borne pests and diseases, and additives and contaminants in foods and feedstuffs. They include a wide range of measures such as quarantine requirements and procedures for approval of food additives or for the establishment of pesticide tolerances. The S&P agreement is designed to distinguish legitimate S&P measures from trade protectionist measures. For example, S&P measures must be based on scientific principles and not maintained without sufficient scientific evidence and must be based on an assessment of the risk to health, appropriate to the circumstances.

The S&P agreement safeguards U.S. animal and plant health measures and food safety requirements. The agreement clearly recognizes and acknowledges the sovereign right of each government to establish the level of protection of human, animal and plant life and health deemed appropriate by that government. Furthermore, the United States has a long history of basing its S&P measures on scientific principles and risk assessment.

In order to facilitate trade, the S&P agreement encourages the use of international standards as a basis for S&P measures. However, each government remains free to adopt an S&P measure more stringent than the relevant international standard where the government determines that the international standard does not provide the level of protection that the government deems appropriate.

Dispute Settlement: The Dispute Settlement Understanding (DSU) creates new procedures for settlement of disputes arising under any of the Uruguay Round agreements. Representatives of the soybean industry who were involved in the U.S. challenge to EC oilseed subsidies will immediately recognize the value of this agreement. The new system is a significant improvement on the existing practice. In short, it will work and it will work fast. The process will be subject to strict time limits for each step. There is a guaranteed right to a panel. Panel reports will be adopted unless there is a consensus to reject the report and a country can request appellate review or the legal aspects of a report. The dispute settlement process can be completed within 16 months from the request for consultations even if there is an

appeal. Public access to information about disputes is also increased.

After a panel report is adopted, there will be time limits on when a Member must bring its laws, regulations or practice into conformity with panel rulings and recommendations, and there will be authorization of retaliation in the event that a Member has not brought its laws into conformity with its obligations within that set period of time.

The automatic nature of the new procedures will vastly improve the enforcement of the substantive provisions in each of the agreements. Members will not be able to block the adoption of panel reports. Members will have to implement obligations promptly and the United States will be able to take trade action if Members fail to act or obtain compensation. Trade action can consist of increases in bound tariffs or other actions and increases in tariffs may be authorized even if there is a violation of the TRIPS or Services agreements.

The DSU includes improvements in providing access to information in the dispute settlement process. Parties to a dispute must provide non-confidential summaries of their panel submissions that can be given to the public. In addition, a Member can disclose its submissions and positions to the public at any time that it chooses. Panels are also expressly authorized to form expert review groups to provide advice on scientific or other technical issues of fact which should improve the quality of decisions.

Environment: Comprehensive as it is, the Final Act does not cover every aspect of trade policy of great importance to the United States and to this Administration. Our trading partners recognize that the work of shaping the World Trade Organization to the needs of the 21st century must continue without pause.

In December, the Uruguay Round participants decided to develop a program of work on trade and environment to present to the ministers in Marrakech in April. We begin with the agreed premise that international trade can and should promote sustainable development, and that the world trading system should be responsive to the need for environmental protection, if necessary through modification of trade rules.

The United States will seek a work program that ensures that the new WTO is responsive to environmental concerns. International trade can contribute to our urgent national and international efforts to protect and enhance environmental quality and conserve and restore natural resources. At the same time, we will continue to advocate trade rules that do not hamper our efforts to carry out vital and effective environmental policies, whether

nationally or in cooperation with other countries. We will be working closely with environmental organizations and business groups, as well as the various agencies, and of course this Committee and others in Congress, as we define our trade and environment objectives.

Conclusion

Mr. Chairman, Congress will be considering the Uruguay Round implementing legislation at an auspicious time for America. The U.S. economy is expanding; investment is increasing; jobs are being created; and optimism about the prospects for our economy is soaring. This economic expansion reflects the fact that this country is moving in the right direction. The policies of the Clinton Administration, starting with our budget plan; the adjustments made over the last several years by our workers and companies-- all of our efforts make us as a nation stronger and more competitive.

In setting the negotiating objectives for the Uruguay Round, Congress clearly signalled its belief that strengthening the multilateral rules of the GATT would make America more competitive in world markets. We succeeded. We met those objectives; and I am convinced that the new multilateral rules agreed to in the Uruguay Round will work together with our ongoing efforts to increase regional cooperation. America is uniquely positioned to benefit from expanding trade-- in this hemisphere and in the world. The Uruguay Round builds on our strengths. It will benefit us, and the world economy as a whole.

Statement of
Mike Espy
Secretary of Agriculture
Before the House Committee on Agriculture
March 16, 1994

Mr. Chairman, members of the Committee, I appreciate the opportunity to appear before you with Ambassador Kantor to discuss the Uruguay Round agreement negotiated under the auspices of the General Agreement on Tariffs and Trade (GATT) and the agreement's benefits for American agriculture.

While we naturally tend to focus on the more dramatic breakthroughs of the Uruguay Round, such as the permanent end of rice import bans in Japan and Korea, today I would like to emphasize the longer term benefits of this agreement. To do that, I'd like to take a few moments to put the agricultural trade system in perspective.

The GATT was established shortly after World War II when the major western countries recognized the critical role trade plays in the economic and political development of nations. GATT became a great success--trade expanded and standards of living grew.

But despite all this success, agricultural trade has not benefitted as much as possible from the GATT because it developed largely outside the GATT framework. Instead, the agricultural policies that emerged after World War II were a haphazard mix that limited and distorted trade.

International agricultural trade rules, where they existed, were weak and largely not possible to enforce -- eg., GATT panel rulings could be ignored unless the aggrieved party had means to retaliate.

That was the scene when the Uruguay Round began almost eight years ago. The U.S. goal was straightforward--to work toward an agreement that promoted trade growth for our farmers by eliminating all policies that distorted international agricultural trade--a goal that established the starting point for the negotiations. I don't have to explain to this Committee how important exports are to the income of our farmers and to the U.S. economy as a whole. I'm sure you can recite the statistics as well as I can. But perhaps the most telling number to me is that nearly 96 percent of the world's consumers live outside the United States. Obviously, the greatest future market potential for American food and fiber lies outside our borders. When you combine this fact with today's budget constraints, the value of export markets as a mainstay of U.S. farmers' income is even clearer.

Although it will not solve all the economic problems for U.S. agriculture, the Uruguay Round agreement is critical for our farmers because it will begin to open world markets--some for the first time.

The agreement will enable American farmers to do what they do best--produce food, feed, and fiber and market them at competitive prices in world markets. All Americans will benefit

from an agricultural sector that can fully use its productive capacity.

Perhaps most importantly, this agreement brings agriculture more fully into the GATT system. This gives us a significantly improved process for resolving agricultural trade problems. In addition, for the first time, we negotiated an agreement that helps our farmers in four specific areas--market access, internal support, export subsidies and sanitary and phytosanitary rules. Changes in these four areas will be implemented over a period of six years--starting in 1995. Let me summarize the agreement's main benefits to U.S. agriculture:

Market Access

To improve worldwide market access, all tariffs for agricultural products in all GATT member developed countries will be reduced an average 36 percent, or 24 percent in developing countries. In some of the most important growth markets for the United States, we achieved some specific and additional market openings that go significantly beyond these tariff cuts, particularly for beef, pork, poultry, specialty crops, and processed agricultural products. But tariffs for all agricultural products will be reduced.

Existing import prohibitions will be converted into visible tariffs through tariffication, and a minimum level of access is assured in markets. This means, for example, that Japan and Korea will import rice every year from now on. We expect a substantial portion will come from the United States.

Further, the Uruguay Round agreement requires that all import quotas and variable levies, minimum import price schemes, and other trade-distorting schemes be replaced with tariffs or tariff-rate quotas. With tariffication, and the subsequent reduction in these new tariffs, we will truly begin to move toward the proverbial "level playing field."

For the United States, our commitment on market access means that Section 22 quotas will be replaced with tariffs and tariff-rate quotas. The out-of-quota or second tier tariffs initially will afford approximately the same level of protection that was provided by the quotas. In addition, a special safeguard will be available if there is a surge in imports or if import prices drop significantly. We believe that the impact of these imports on our producers must be viewed in the context of the enormous market access we gain for our exports around the world.

Internal Support

The Uruguay Round is the first GATT agreement that disciplines internal agricultural support. The agreement distinguishes between support measures for producers that are trade-distorting and those that are not.

Reduction commitments are established on the basis of an Aggregate Measurement of Support (AMS) method. Under this approach, each developed country must reduce its total internal support by 20 percent from the level that existed in the 1986-88 base period. Because the United States has already reduced its internal supports by more than 20 percent since the base period,

we will not need to undertake any further reductions to meet our commitments under the agreement.

Export Subsidies

For the first time, GATT rules will effectively discipline the use of agricultural export subsidies. These subsidies are clearly defined and must be reduced by 36 percent in budgetary terms and 21 percent in quantity terms from 1986-1990 base period levels.

Cuts in subsidized exports will greatly benefit our producers. While nearly all exports from the European Union are subsidized, a relatively smaller share of our exports are subsidized. With multilateral cuts in export subsidies, the United States can cut export subsidies and be competitive. This will begin to establish fairness in the world agricultural trading system and improve prices and markets in developed and developing countries.

Sanitary and Phytosanitary Requirements

The Uruguay Round Agreement ensures that any measure taken by an importing country for the purpose of protecting human, animal, or plant life or health must be based on science. Certain international standards are presumed under the agreement to be science-based. However, if a country chooses to adopt a standard stricter than the international standard, it may do so, if it has scientific justification for taking the stricter measure. We believe these provisions will discourage countries from using unjustified health-related measures as disguised

barriers while maintaining each country's right to protect the health of its citizens.

Effects of Uruguay Round Agreement

What I would like to stress today is the progressive, evolutionary effect of this agreement. Looking down the road to the year 2000, we will see some benefits of the agreement as tariffs and export subsidies are reduced. But even more importantly, studies suggest that the Uruguay Round agreement will increase world income by as much as \$5 trillion in the 10 years after it goes into effect. This growth will increase the demand for U.S. agricultural products, particularly for income-sensitive commodities like meat, fruits, vegetables, and other specialty crops. And increased demand for beef, pork, and poultry means that U.S. feed grain and soybean producers will benefit as well.

Based on the expected range of growth in global incomes, U.S. agricultural exports are projected to increase by between \$4.7 billion to nearly \$8.7 billion by 2005. Grains account for almost half of this increase.

Increased exports mean more export-related jobs, particularly for high-value and value-added products. By 2005, export-related employment is expected to increase by as much as 190,000 jobs.

Increased exports bolster farm prices, increase farm income, and lower Government outlays. The Uruguay Round agreement is expected to raise farm sector income over current baseline

estimates by as much as \$2.5 billion in 2005. At the same time, Government outlays could be as much as \$2.6 billion lower in 2005--and that is good news in today's budget environment.

Perhaps even more important for the future is the discipline the Uruguay Round will apply to countries that might otherwise choose the direction of closed markets, production-inducing internal supports, and subsidized exports. This has important consequences for our large trading partners that are currently outside of the GATT--China, Taiwan, and the nations of the former Soviet Union.

Conclusion

Mr. Chairman, I've presented a very short summary of an agreement that has taken a long time to negotiate. This highly complex agreement does not fully meet all the original objectives that the U.S. had in the negotiations and I would not argue that it is perfect. But, in less time than it took to negotiate this one, another historic outcome from this agreement will occur. That is the so-called continuation provision.

After the fifth year of implementation, the countries of the GATT will come together again in Geneva to continue the reform process started in 1986 in Uruguay. The language in this agreement makes it clear that in the year 2000, GATT members will pick up where we left off on December 15. We will decide how further market openings and reduction of trade barriers and subsidies should continue after the sixth year of this agreement.

Mr. Chairman, it's been over 30 years since a Secretary of Agriculture served eight years, so I can't promise that I'll be participating in the GATT negotiations in the year 2000, but I am confident you will be.

Thus, I welcome this chance to discuss this historic agreement with you at this time. I also wish to acknowledge the invaluable guidance that you and Members from both sides of the aisle gave in bringing the Uruguay Round to a successful conclusion. Those closing days in Geneva were hectic ones but you and Congressman Colin Peterson, as well as the Majority and Minority Committee staff, were helpful to us as the final gavel fell, concluding the talks. To all who assisted us along the way we wish to say "thank you."

This concludes my prepared statement, Mr. Chairman. I would be happy to answer any questions.

**FOLLOW-UP QUESTIONS
FROM
SECRETARY ESPY'S 3/16/94 HOUSE TESTIMONY**

- Q:** Shouldn't the Department of Agriculture be aggressively planning to shift the emphasis of its export efforts from reducing commodity surpluses to marketing processed and high value products? In addition, should this goal be somehow accommodated in your reorganization plans for the new International Trade Agency?
- A:** The Foreign Agricultural Service (FAS) administers and will continue to administer overseas sales of bulk agricultural commodities through various programs under the General Sales Manager (GSM) of the Commodity Credit Corporation, including the Export Enhancement Program (EEP) and GSM credit guarantee programs. At the same time, FAS has been at the forefront of actively promoting high value and value-added U.S. agricultural products abroad in cooperation with U.S. agricultural producer organizations. The Market Promotion Program (MPP) is a major component of our success in foreign markets in promoting high value and value-added agricultural products, and we plan to continue to aggressively use it.

APPLES TO JAPAN

Mr. Volkmer. I know that for 20 years Washington state has been trying to get apples into Japan. I'd like to know if now we're finally going to be able to sell to Japan - how many apples, how many bushels?

Mr. Espy. We are currently on track with the Japanese government to complete all of the required phytosanitary tests to ensure the entry of this year's harvest into Japan. We have written assurances from Japan's Agriculture Ministry that they will carry out their administrative procedures expeditiously. Regarding the potential trade, Japan should be a premium price market for our producers, and we will be looking at very good prices per box; our initial estimates of the first year value of shipments to Japan are in the neighborhood of \$15 to \$20 million, growing to \$75 million or more in the following 4-5 years.

URUGUAY ROUND: DAIRY

[Question is paraphrased]

Mr. Volkmer. Regarding the European Union's use of export subsidies for dairy. As I understand it, because they have cut back their level of subsidization in recent years, they will not have to make any reduction from their 1993 level. That is, their Uruguay Round requirement to reduce from their base period will eventually leave them at the level that they are currently subsidizing exports at, is that correct? Give me the figures in writing later on, I would like to see them.

Mr. Espy. In the short term, the dairy export subsidy disciplines will have an immediate impact on EU exports of cheese and "other dairy products," which includes whole milk powder, condensed milk and yoghurt. The reason is that the EU has shifted to exporting more processed products. This has meant, however, that it has reduced its subsidized exports of basic dairy products, i.e., butter and nonfat dry milk. Without the Uruguay Round agreement, there would be no cap on these export subsidies and therefore there would be nothing to stop the EU from increasing butter and nonfat dry milk exports back to base period levels and beyond. With the Uruguay Round agreement, there is a cap and this cap will be reduced significantly. Moreover, the continuation clause will bring us back to the negotiating table in year 6 to consider further reductions in export subsidies.

Provided below is a table of the reduction commitments.

EU Export Subsidy Uruguay Round Reduction Commitments
(1,000 Metric Tons)

<u>Commodity</u>	<u>Base Period for beginning reductions</u>	<u>1992/3 1/</u>	<u>1995</u>	<u>2000</u>
Butter/oil	463	195	447	366
Cheese	427	510	407	305
NFDM 2/	308	293	297	243
Other Milk 3/	1,206	1,317	1,161	938

1/ July 1-June 30; Eurostat excluding estimated food aid

2/ Nonfat Dry Milk

3/ Whole milk powder, condensed milk, frozen yogurt, etc.

Questions for Agriculture Hearing on GATT

2. Many of us from peanut growing areas are particularly concerned about transshipments of peanuts or peanut products through Canada. What is the status of your negotiations with Canada regarding the issue of peanut paste/peanut butter imports into this country?

Answer: Secretary Espy met recently on March 21 and again in Marrakech with Canadian Agriculture Minister Goodale and other Canadian trade officials to discuss a wide range of bilateral trade issues, including the question of imports of Canadian peanut butter/paste. We have informed Canada that under our Uruguay Round schedule of commitments on market access, we will establish a global tariff-rate quota on peanut butter/paste based on current imports. Canada will have access at its 1993 level. Any imports over that level will face a prohibitive tariff. This regime should effectively limit imports of Canadian peanut butter to current levels.

3. Argentina grows a great deal of peanuts. In your view, how easy will it be for them to join NAFTA in the future?

Answer: The Administration's overall trade policy with respect to the Western Hemisphere, which involves the question of NAFTA accession for other countries in Latin America, is currently being reviewed within the various agencies responsible for trade policy. In addition, President Clinton has made a general commitment to the Government of Chile to begin discussing a free trade agreement at some point in the future. No other specific commitments have been made to other Latin American governments. Argentina has certainly made tremendous progress both in reforming its electoral process and its economy. But given the current policy review under way and the commitment to Chile, the prospect of NAFTA accession or a separate free trade agreement with Argentina would appear to be some time off in the future.

From Congressman Everett:

Question: On the issue of zero for zero tariffs on forest and wood products, I am concerned that a tariff reduction for these products over ten years does not fully achieve the objective of gaining better market access for our agricultural products. There are some industry projections that the ten year phaseout would result in a loss of export benefits of \$3.3 billion. I feel that reducing tariffs over five years would enable our wood products industry to better achieve market access, thus creating more exports and American jobs.

Would the Administration be willing to further press the European Community to reduce their tariffs and allow the U.S. to phaseout tariffs for wood and paper products over five years?

If not, how would the Administration address the EC subsidies which further place American exports at a competitive disadvantage?

Answer: We achieved zero/zero on paper with staging over 10 years. Key participants are the EC, Japan, Canada, the United States and Korea. I recognize the importance to the paper industry in shorter staging for the zero/zero. We have pressed the Europeans to agree to this, but so far, they have refused.

The issue of accelerating the elimination of paper tariffs can be addressed after April 15. Acceleration of the staging of existing tariff concessions will require additional authority from Congress, possibly in the form of a consultation/layover procedure similar to what is provided for NAFTA acceleration. The Administration is currently consulting with Congressional staff on the best means of addressing this issue.

From Chairman de la Garza

Question 1: The TRIPS (Trade-Related Intellectual property Rights) agreements provides for improved standards for the protection of intellectual property rights. According to the ATAC (Agricultural Technical Advisory Committee for Trade in Fruits and Vegetables) report, this agreement "does not include agricultural intellectual property rights for seed and plant development." Is this a correct statement and if so, doesn't agricultural IPRs deserve the same treatment as non-agricultural IPRs.

Answer: Article 27 of the Agreement on TRIPS requires all WTO Members to provide protection for plant varieties under either its patent law or a sui generis plant breeders' right system or both.

Question 2: I note that within four years after entry into force, the dispute settlement arrangement will be reviewed to determine whether it will continue, should be modified or terminated. Is it possible the new dispute settlement rules could be changed before the transition period is over. Please respond fully.

Answer: As you noted, the Members of the WTO will review the operation of the dispute settlement system 4 years after the WTO enters into effect. Changes could be made prior to that time, if there is a consensus among all of the Members to make such a change. We, of course, must be part of that consensus.

Question 3: Would MFN countries that are not members of the new World Trade Organization (WTO) receive any benefits of GATT 1994.

Answer: The WTO Agreements do not require us to give any benefits to non-Members. With respect to U.S. treaties that provide for MFN treatment, only a limited number of these Agreements exist. Many of them are with EU member states and we do not expect that these countries will be "non-Members." With respect to tariffs, U.S. law grants MFN tariff treatment unless there is a specific statute revoking that tariff status.

Question 4: Will Section 22 still be applicable for non-WTO countries following the Uruguay Round entry into force.

Answer: Yes

Question 5: The new minimum access rules require large increases in cheese and especially non-cheese dairy imports (butter increasing from 321 mt to 7,000 mt by the beginning of year 6, butteroil, 544 mt to 6,100 mt, and nonfat dry milk, 820 mt to 5,500 mt). What assurances can dairy farmers get that these increases will be implemented in such a way as to minimize disruption to our dairy markets and not put our farmers out of business.

Answer: The Administration intends to work with Congress and our dairy industry to develop GATT-consistent methods to minimize potential disruptions to our dairy markets due to the implementation of the new minimum access rules for dairy products (e.g. import licensing arrangements).

Question 6: It is my understanding the Administration is seeking authority to auction cheese licenses as part of its efforts to help finance GATT 1994. The Congressional Research Service tells us that auctioning of cheese licenses would bring in little revenue to the government. Domestic industry sources estimate \$6-11 million would be generated annually but would be offset by \$150 million in lost farm income for each penny drop in the Green Bay Cheese Exchange price as branded cheese production is converted to commodity processing cheeses. Some industry sources are predicting a drop of 5 1/2 cents. Would you comment in full, please.

Answer: There is no Administration proposal to auction import licenses for cheese.

From the Committee on Agriculture:

Question 1: It appears from a review of the list prepared by the Administration concerning legislative changes necessary as a result of the GATT that the only domestic commodity program legislation requiring changes is the cotton title of the Food, Agriculture, Conservation and Trade Act of 1990. Specifically, the Administration is suggesting that the first handler certificate program must be amended to conform with GATT 1994. Could you explain exactly what changes to the cotton title of the FACT ACT are required and elaborate as to why the first handler certificate program must be altered?

Answer: We propose to repeal Sections 103B(a)(5)(F) and 103 B(n) of the Agricultural Act of 1949 which provide for special cotton import quotas to relieve pressure if supplies become short. We no longer need these provisions because there will no longer be absolute quantitative limitations on cotton imports. We do not believe it will be necessary to alter the first handler certificate program.

Question 2: GATT 1994 calls for the tariffication of all non-tariff trade barriers (at least by the United States). Among other such barriers, quotas currently in place pursuant to the authority of section 22 of the Agricultural Adjustment Act are to be eliminated and replaced with a tariff-rate quota mechanism. It is assumed that such a mechanism will be implemented through a direct change to the Harmonized Tariff Schedules. Once the absolute quotas are altered through legislation, the United States will presumably be in compliance with the GATT 1994 agreement. Is it not the case that section 22 of the Agricultural Adjustment Act does not have to be directly amended in order to comply with GATT 1994? Under the agreement, it would seem that the authority to implement a quota or fee arrangement is not, in and of itself, a violation of GATT 1994. Therefore, once the absolute quotas are modified pursuant to the agreement, it would seem that section 22 authority could remain unchanged.

Answer: The rules for agriculture under GATT 1994 also prohibit WTO Members from maintaining, resorting to or reverting to in the future any of the import measures subjected to tariffication. Hence, it would not be consistent with the WTO to impose Section 22 quotas of products of WTO members. Furthermore, as all agricultural tariffs will be bound, the U.S. would also be in violation of the GATT 1994 if new import fees were introduced in the future under Section 22.

Question 3: It is unclear what the exact status is of countries that are not 1) GATT members or 2) that do not become members of the new World Trade Organization proposed to be established under this agreement. Could you please provide a statement as to

whether countries in the following categories will or will not receive the benefits of GATT 1994:

(a) Countries such as China and Taiwan are currently not members of the GATT. Will these countries receive the benefits of expanded market access into the United States as provided in the agreement? Will these countries receive the benefits of reduced tariff rates as provided in the agreement?

Answer 3(a): In general, GATT benefits now and WTO benefits in the future do not go to countries that are not members of those agreements. An exception to this rule is tariffs, where Congress has decided to grant MFN tariff treatment unless it explicitly exempts a country from such treatment. In addition, in the area of intellectual property, the United States accords national treatment to countries that are members of an international intellectual property agreement but not members of the GATT or the WTO.

The U.S. grants MFN to China and Taiwan under bilateral agreements. The reduced tariff rates provided for in the GATT 1994 will be available to all countries and other trading entities that have MFN status with the United States. However, the Administration worked closely with relevant U.S. interest groups and was careful to avoid making concessions in the context of the Uruguay Round that would be of benefit to these economies.

(b) After GATT 1994 is implemented, will there be countries that are GATT members but are not members of the WTO? If so, exactly what range of benefits will such countries be entitled to receive under GATT 1994?

Answer 3(b): Contracting parties to the GATT 1947 at the time of WTO implementation which are prepared to accept the WTO agreements and also to attach schedules of concessions for agriculture and goods and a schedule of commitments for services can become original members of the WTO. It is possible that not all GATT 1947 CPs will become original WTO members. The United States intends to withdraw from the GATT 1947 at the time of WTO implementation, removing the U.S. obligation to grant MFN trading status to GATT 1947 contracting parties that are not members of the WTO or that do not have a bilateral basis for MFN treatment after that time.

(c) There are countries that currently enjoy Most-Favored-Trading status with the United States but are not members of the GATT and would not (presumably) immediately become members of the WTO. Will these countries, as a result of their MFN status, automatically have access to the U.S. trade concessions negotiated in the GATT 1994 by the U.S.?

Answer 3(c): As indicated above, in the areas of tariffs, MFN treatment is granted unless it is explicitly denied. The United States also grants MFN status to a number of countries that are not members of the GATT under bilateral agreements that specify such treatment. As long as these trading partners are granted MFN status by the United States, they will have access to U.S.

tariff concessions provided for in the GATT 1994, just as they do now vis-a-vis GATT 1947.

(d) Certain GATT-member countries, such as Pakistan, India, Paraguay and others have not put forward legitimate offers to increase market access into their country. Specifically, some of these countries maintain very closed markets to imports of textiles or raw cotton. Conversely, these countries are among those who loudly demand market access into the United States.

If countries such as these do not put acceptable market access offers on the table by April 15 signing in Marrakesh, what recourse does the United States have? Can the U.S. block these countries' membership in the WTO? If their membership is blocked, what effect will that have on their ability to receive the benefits of the GATT 1994 agreement?

Answer 3(d): We share the textile industry's desire to achieve market access for U.S. textiles and clothing. We are proud that in most of the key countries for our exports, we have been able to achieve substantially improved market access for our textiles and apparel. However, in certain other key markets, we have not yet achieved our goals. We do not, however, believe that the process is over yet. We have both some remedies under the Uruguay Round agreement and other trade options to continue our push for meaningful market access commitments. This Administration has fought very hard and will continue to fight hard to open markets for U.S. products.

Question 4: The People's Republic of China is negotiating to gain GATT membership. Could you please report on the status of those negotiations? Further, it has come to our attention that the PRC is attempting to join the GATT as a "former member," somehow acceding to the seat once held by democratic China. If this report is accurate, it would appear the PRC may be allowed to become a member of the GATT without making significant changes in its market system. This would be a significant blow to the credibility of the GATT as an institution and to our trade negotiators who have consistently stated that the PRC would be forced to make significant changes in their economic system before it could be integrated into the GATT system. Could you report on this development? Is it accurate? Does it jeopardize the ability of the U.S. to insist on economic changes in the PRC?

Answer: China was a full participant in the Uruguay Round. It is eligible to become an original member of the WTO if it completes its GATT 1947 accession process prior to the implementation of the WTO and attaches its schedules as provided for in the text of the Final Act. The United States supports China's accession to the GATT/WTO on terms that recognize the full acceptance of basic GATT obligations, that will bind its trade regime to GATT provisions, and that provide for market access for U.S. and other CP exports commensurate with China's position as a major world economy and trading country. China's

desire to negotiate contracting party status to the GATT 1947 does not automatically entitle China to enter either GATT or the WTO without substantive negotiations to bring its trade regime into conformity with GATT provisions.

Question 5: It is our understanding that the cotton marketing loan program and all of its components is subject to GATT 1994 limits concerning internal levels of agricultural support. Is this accurate? Is it correct that the marketing loan program and all of its components are not export subsidies under GATT 1994?

Answer: You are correct. The cotton marketing loan program is not considered an export subsidy under GATT 1994. Government support provided through the cotton marketing loan will be subject to the limits concerning internal support.

Question 6: Could you provide a chart indicating how the Department of Agriculture intends to implement the tariffication provisions affecting cotton imports into the United States? Specifically, please indicate below-tariff quantities by tariff number, by year, and explain how the increased access given Mexico under the NAFTA will fit into the tariff-rate quota for cotton. Also please indicate how the above quota tariff will be applied to cotton imports from GATT members and from Mexico. Finally, please indicate how cotton exports from non-GATT members, non-WTO members, and specifically the PRC and Uzbekistan will be treated if the GATT implementing legislation were to be passed.

Answer: See attached chart.

URUGUAY ROUND
COTTON IMPORT ALLOCATIONS

	Current quota	Kilograms					2000 and thereafter
		1995	1996	1997	1998	1999	
5201.00.14 Short staple cotton	2,555,000	8,495,050	10,837,450	13,179,850	15,522,250	17,864,650	20,207,050
5201.00.24 Harsh or rough cotton	680,400	900,000	1,000,000	1,100,000	1,200,000	1,300,000	1,400,000
5201.00.34 Medium staple cotton	2,070,800	5,200,000	6,460,000	7,720,000	8,980,000	10,240,000	11,500,000
5201.00.60 ELS cotton	17,958,100	25,500,000	28,420,000	31,340,000	34,260,000	37,180,000	40,100,000
5202.99.10 Cotton waste	1,035,400	1,835,427	2,135,427	2,435,427	2,735,427	3,035,427	3,335,427
5203.00.10 Cotton processed but not spun	453	1,000	1,300	1,600	1,900	2,200	2,500
Total	24,300,253	41,931,477	48,854,177	55,776,877	62,699,577	69,622,277	76,544,977

An additional quantity may be imported from Mexico duty-free under any of these categories. The 1994 quantity for Mexico is 10,000,000 kg. This quantity will increase by 3% each year for 15 years. After 15 years there will be no limits on Mexico. The over quota tariff rate for Mexico is 35.5¢/kg for 1994, reduced to Free over 15 years.

Over quota tariff will be 35¢/kg in 1995
reduced to 31.4¢/kg by 2000

There is no obligation to permit access for the new quantities to countries which are not members of the WTO. However, some of these countries have allocations from the pre-existing quotas which must be maintained.

It should be noted that the current quotas never fill by more than 26%.

From Congresswoman Long

Question: Ambassador Kantor, in reference to the future use of Section 301, U.S. officials have not been clear about exactly what ability the U.S. would have to use 301. For instance, it is my understanding that you have said we can use it, yet you've also said we could not unilaterally raise tariffs or take other trade measures -- which is how we enforce Section 301. And recently, Prime Minister Hosakawa released public statements to the effect that Japan, as a Member of the World Trade Organization, no longer recognizes the United States's right to this action. The section of the WTO dispute settlement text on "Strengthening the Multilateral System" seems to agree with Mr. Hosakawa. My question is this, will a WTO tribunal be ultimately responsible for deciding if such unilateral motions will or will not be permitted? And, why would the U.S. take this chance?

The important point, however, is the one that you made -- you think the U.S. will be the big winner -- that other countries will violate the agreement much more often than the U.S. and that the agreement while not ensuring total sovereignty preserves the utmost sovereignty.

I think it is important to get this sovereignty question behind us -- that we focus on the positives here -- and I hope that my questions and your responses have helped to clear up some of the confusion.

Answer: The Uruguay Round Agreements will not change the way the United States conducts Section 301 investigations involving an alleged violation of a WTO Agreement. Furthermore, as a result of the Round, Section 301 will be more effective in addressing foreign unfair trade barriers.

Section 301 currently requires use of GATT dispute settlement procedures when the matter at issue involves that trade agreement. This will remain the same under the WTO. Since the coverage of the WTO is broader than the GATT, the effect is that more Section 301 investigations will be done in the WTO dispute settlement context.

If a matter is not covered by a WTO Agreement or the other country involved is not a Member of the WTO, we, of course, will not use WTO dispute settlement. Furthermore, with non-WTO Members, the WTO will not affect the decision on what retaliatory action we might take.

With respect to unilateral actions that the United States might take in the future, the improved WTO dispute settlement system is designed to address the need for such actions. Under current GATT dispute settlement rules, we have sometimes been denied effective recourse for resolving problems because other countries have blocked adoption of panel reports or important matters were not covered by the Agreement. The new dispute settlement system

has stringent time limits for each step and a government found to be in violation of its obligations must act within a set period to remedy the problem or pay compensation. If that country's government fails to act, it is subject to retaliation.

With respect to retaliation, if the United States is using the WTO dispute settlement mechanism, the Dispute Settlement Body must approve our request to act. That approval is automatic unless there is a consensus to disapprove the request.

In other cases, for example, where the United States is seeking enforcement of a right under a bilateral agreement, we can take trade action that is not covered by the WTO Agreements. Alternatively, the U.S. Government can decide that the matter at issue is important enough to take an action that is inconsistent with a WTO Agreement. In that case, the other government can go to dispute settlement and object to the action that the United States chose to take.

As to why the United States would choose to take action inconsistent with a WTO Agreement, it is a question of the importance of the issue needing resolution and the steps necessary to induce a solution to a significant problem.

Question: Shouldn't the Department of Agriculture be aggressively planning to shift the emphasis of its export efforts from reducing commodity surpluses to marketing processed and high value products? In addition, should this goal be somehow accommodated in your reorganization plans for the new International Trade Agency?

Answer: The Foreign Agricultural Service (FAS) administers and will continue to administer overseas sales of bulk agricultural commodities through various programs under the General Sales Manager (GSM) of the Commodity Credit Corporation, including the Export Enhancement Program (EEP) and GSM credit guarantee programs. At the same time, FAS has been at the forefront of actively promoting high value and value-added U.S. agricultural products abroad in cooperation with U.S. agricultural producer organizations. The Market Promotion Program (MPP) is a major component of our success in foreign markets in promoting high value and value-added agricultural products, and we plan to continue to use it aggressively.

From Congressman Kingston

You should know that serious concerns remain about the overall effect of the GATT agreement on the U.S. forest products industry. On balance, this agreement -- as currently written -- is not a great deal for the forest industries. I wanted to let you know of my concerns now so we can try to address some of these problems as Congress and the Administration draft the GATT implementing legislation.

Question: Wood Products

- o USTR has worked to achieve the maximum leverage possible in negotiations with Japan on wood tariffs, and we applaud their commitment and their efforts. However, if the agreement is signed as it currently stands, it does nothing for the wood products industry.
- o In fact, it does less than nothing because it allows the Japanese off the hook. After seven years of negotiations to eliminate tariffs on wood products, Japan agreed to do nothing more than what they had already agreed to do under the previous 1990 301 agreement -- a 50 percent cut in tariffs over 5 years.
- o And when Japan refused to go to zero tariffs, 18 other countries pulled back from their zero tariff offers. Japan, in fact, blocked an emerging international consensus. This retreat from zero tariffs for wood products results in a loss of \$8.8 billion in potential new business.

Answer: We pushed extremely hard at all levels of government to get Japan to accept zero/zero on wood. I personally raised this with Minister Hata on several occasions. In the end, it proved impossible to achieve as part of the Uruguay Round.

Japan has offered a 50% reduction on wood. The EC offered close to a 50% reduction on wood. In the face of our disappointment that we did not achieve zero/zero on wood, we adjusted our wood offer. We are offering about a 1/3 cut on wood. We consulted with our industry before tabling this offer and believe it meets their concerns.

The issue of Japan's tariffs on wood is important. We will work with the wood industry to determine how we can make progress bilaterally now that the Round is over.

Question: Paper and Paper Products

- o Agreement was reached to eliminate tariffs on paper, but over ten years -- not the originally anticipated five years. The benefits we hoped to achieve in the Round are greatly reduced if tariff reductions are stretched out over ten years instead of five.

- o There is still a possibility accelerated staging could be achieved if enough pressure is brought to bear on the European Commission, and the industry is making every effort to assist our negotiators in that undertaking. However, if they are not successful, U.S. export benefits to the paper industry are reduced by \$3.3 billion.
- o This situation is a classic example of how American industry's commitment to fair and free trade is not reciprocated by our trading partners. The U.S. paper industry agreed to the virtual elimination of U.S. tariffs back in the Tokyo Round. The EC continued to impose a 9 percent tariff on our products. At the same time, European industry took unfair advantage of the open U.S. market. Commerce determined European paper producers were dumping here in 12990-91, and European imports have surged again in 1992-93. Yet the Europeans expect this industry to wait another ten years for a level playing field.

Answer: We achieved zero/zero on paper with staging over 10 years. Key participants are the EC, Japan, Canada, the United States and Korea. I recognize the importance to the paper industry in shorter staging for the zero/zero. We have pressed the Europeans to agree to this, but so far, they have refused.

The issue of accelerating the elimination of paper tariffs can be addressed after April 15. Acceleration of the staging of existing tariff concessions will require additional authority from Congress, possibly in the form of a consultation/layover procedure similar to what is provided for NAFTA acceleration. The Administration is currently consulting with Congressional staff on the best means of addressing this issue.

Question: "Greenlighting of Environmental Subsidies"

- o This provision would allow all countries to offer subsidies of up to 20 percent of the cost of meeting new or stricter environmental regulations. This change was added at the eleventh hour without consulting any of USTR's industry advisors. It greatly concerns me.
- o I understand the Agreement limits such subsidies to a series of "one-time measures" to cover the cost of adapting existing facilities to new environmental regulations. I am concerned about how we can limit any additional, unintended benefits to U.S. competitors, such as increased levels of production or improved cost competitiveness.
- o I hope the Administration will work with me and other supporters of the forest products industry to ensure that these subsidies do not substantially disadvantage our industry.

Answer: The Administration, like you and your constituents in the forest products industry, wishes to ensure that no additional, unintended benefits to foreign competitors arise from the green lighting of environmental subsidies under the Uruguay Round subsidies agreement. In his testimony before each and every congressional committee regarding the Uruguay Round Ambassador Kantor has indicated that the Administration intends to work with the Congress and interested industries to ensure that our implementing legislation clearly and narrowly defines ambiguous terms in the green light provisions. He also has said that we intend to monitor vigorously in Geneva all claims for entitlement to green light status. The green light provision is not meant to be a loophole, and the Administration will act to ensure that it does not become one.

Question: Environmental Work Plan

- o I understand a key element of the environmental work program currently being developed by USTR will be to rewrite international trade rules to provide a legal basis for allowing countries to enforce international environmental agreements by conditioning market access on a country's compliance.
- o I am concerned that these "Green Round negotiations" will not be subject to the checks and balances imposed on most negotiations (e.g., negotiating authority will not be required and governmental decision-making will not be subjected to existing industry advisory committee processes).
- o I hope that is not the case because I believe it would set a dangerous precedent for trade agreements to be negotiated in the dark. I trust that the Administration will ensure that any trade and environmental restrictions are clearly reviewed and vetted through industry advisors before any action is taken.

Conclusion

- o We need to have these concerns fixed before the implementing legislation is submitted for the up or down vote so we can be sure that this agreement protects the interest of the forest products facilities in my district, and the voters who depend on them for a living.

Answer: The Administration has placed a high priority on bringing environmental considerations into the multilateral trading system. We believe that the two can and should be mutually reinforcing. Unfortunately, at present there are a number of situations in which this is not the case. For example, some international environmental agreements to which many countries, including the United States, are signatories, rely on trade restrictions to give effect to the agreement. However, it

is not at all clear that such restrictions would be found to be consistent with GATT obligations, despite the fact that they might constitute an integral part of a treaty. Beyond international agreements, the United States has a number of laws which rely on trade measures to enforce environmental policies (such as the Marine Mammal Protection Act). Other countries find themselves in a similar situation. This has led to the conclusion that a systematic examination of these issues is needed in the new WTO to determine whether any adjustments to the rules of the trading system are necessary.

The process of review and vetting of our approach to these issues has been, and will continue to be, open and transparent to all interested parties, including industry advisors. With respect to your particular concern, representatives of the paper/forest products industry have in fact directly attended most of our consultations with advisors on these issues.

In order to ensure systematic consultations with all interested private sector advisors, the President has just approved creation of the Trade and Environment Policy Advisory Committee. This advisory group will provide a vehicle for industry and environmental organizations to jointly advise the U.S. Trade Representative on matters relating to trade and environment.

BEFORE THE
COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

HEARING ON THE
TRADE AGREEMENTS RESULTING FROM THE URUGUAY ROUND
OF MULTILATERAL TRADE NEGOTIATIONS

WRITTEN STATEMENT OF THE FLORAL TRADE COUNCIL

March 25, 1994

I. INTRODUCTION

These comments are submitted on behalf of the Floral Trade Council, in conjunction with the House Agriculture Committee's March 16, 1994 hearing on the trade agreements resulting from the Uruguay Round of Multilateral Trade Negotiations. The Floral Trade Council is a U.S. trade association the majority of whose members are domestic producers or wholesalers of fresh cut flowers in the United States and is located at 1152 Haslett Road, Haslett, Michigan 48840 (telephone (517) 339-9765). The Floral Trade Council respectfully requests that Congress adopt implementing legislation that (1) strengthens the antidumping law, (2) protects U.S. breeders' rights under plant variety patents, (3) ensures country of origin marking for fresh cut flowers, and (4) directs that pesticide residues on imported fresh cut flowers be studied. The Floral Trade Council urges Congress to consider the following comments in finalizing implementing legislation for the Final Act text.

II. ANTIDUMPING DUTY PROVISIONS

The United States is a net importer of fresh cut flowers. Over the past twenty years, the U.S. fresh cut flower industry has competed with surging, low-priced imports of fresh cut flowers. Because flowers compete in the U.S. market primarily on the basis of price, the result has been the loss of over 5,000 U.S. cut flower growers with a resulting loss of over 30,000 jobs. For these reasons, it has been necessary for the fresh cut flower industry to resort to various trade remedies, including the antidumping and countervailing duty laws.

As early as 1979, Roses Incorporated filed a petition which established that rose imports from Israel benefitted from countervailable subsidies. In 1982, Roses Incorporated filed a petition alleging that roses and other fresh cut flowers from Colombia were unfairly subsidized. The Floral Trade Council also filed petitions in 1986, which established that imports from various countries were being dumped in the U.S. market or unfairly subsidized. After proving material injury by reasons of those imports, the International Trade Administration ("ITA") issued a series of antidumping and countervailing duty orders and suspension agreements in 1987. The following list reflects those countries with flowers subject to orders or suspension agreements in 1994:

LIST OF OUTSTANDING ANTIDUMPING/COUNTERVAILING
DUTY ORDERS/SUSPENSION AGREEMENTS

<u>YEAR</u>	<u>ORDER/AGREEMENT</u>	<u>COUNTRY</u>
1981	countervailing duty order	Israel
1983	countervailing duty suspension agreement	Colombia
1987	countervailing duty suspension agreement	Colombia
1987	antidumping duty order	Colombia
1987	antidumping duty order	Chile
1987	countervailing duty order	Chile
1987	countervailing duty suspension agreement	Costa Rica
1987	antidumping duty order	Ecuador
1987	countervailing duty order	Ecuador
1987	antidumping duty order	Kenya
1987	antidumping duty order	Mexico
1987	countervailing duty order	Netherlands
1987	countervailing duty order	Peru

On February 14, 1994, the Floral Trade Council filed a petition with the International Trade Administration and International Trade Commission alleging that rose imports from Colombia and Ecuador were being dumped in the U.S. market. As an import sensitive industry, the U.S. fresh cut flower industry needs strong trade remedies. Given the number of antidumping duty orders outstanding on imported flowers, the U.S. fresh cut flower industry has a particular interest in Uruguay Round implementing legislation that reflects its concerns regarding the final agreement's provisions on antidumping.

Standing: Implementation of Article 5 of the final GATT text regarding the initiation of antidumping proceedings could significantly affect the ability fresh cut flowers growers to obtain the relief envisioned by Congress. Upon receipt of a petition, Article 5 will require the International Trade Administration to conduct a pre-initiation investigation which examines the degree of "support for, or opposition to, the application expressed by domestic producers of the like product." Final Text at Art. 5.4. The agency must determine that the application has been made "by or on behalf of the domestic industry." The relevant test is whether the petition is supported by those domestic producers whose collective output is more than 50 percent of total production of the like product produced by that portion of the domestic industry expressing their support. If the domestic producers in support of the petition constitute less than 25 percent of total production of the like product produced by the domestic industry, no investigation will be initiated.

The negotiators, however, recognized that the pre-initiation standing investigation must be modified when the petition is brought on behalf of a fragmented industry. Footnote 13 to Article 5.4 explicitly permits the use of statistically valid sampling techniques to determine support for the petition filed on behalf of fragmented industries

with an exceptionally large number of producers. Implementing legislation for Article 5.4 should account for the difficulty of domestic producers in a fragmented industry, such as the flower industry, to establish the support of producers responsible for over 25 percent of total production.

The U.S. fresh cut flower industry is comprised of hundreds of growers, many of which are small, family-owned and operated businesses. As explained above, the U.S. fresh cut flower industry continues to experience the loss of growers. To date, there is no known comprehensive list of U.S. fresh cut flower growers. Hence, without the ability to sample, flower growers might not be able to satisfy the requirement of Article 5 on an absolute basis.

In the legislative history to the implementing legislation, Congress should make it clear that footnote 13 should apply, at minimum, to fragmented industries such as the fresh cut flower industry. ITA should be authorized to sample in order to determine the support for a petition. As the Court of International Trade has recognized:

Unfair trade proceedings are very expensive, thus, they are often brought by trade associations as opposed to individuals. Individuals may file petitions. The filing of a petition by a trade association, however, is normally some indication, in itself, of industry support. Certainly it is unlikely that FTC would file a petition if the majority of its members opposed it.

Florex v. United States, 705 F. Supp. 582, 587-88 (CIT 1989).

Further, a certain number of fresh cut flower growers are either related to foreign exporters/U.S. importers or are themselves importers of fresh cut flowers. For this reason, it is important that these growers are excluded from any poll taken to determine support for a petition. Article 4.1 of the final GATT text specifically directs the agency to exclude from the definition of "domestic industry" producers that are related to foreign exporters or importers or are themselves importers of the allegedly dumped product. Congress should ensure that implementing legislation specifically excludes those producers from a pre-initiation standing investigation. Finally, in order to relieve the burden on the agency and expedite the proceedings, ITA should be able to rely upon an affirmative allegation of standing by a petitioner (accompanied by evidence that the petitioner has obtained the minimum support). ITA should thereafter conduct a pre-initiation standing investigation only after receiving a challenge to petitioner's standing.

Sunset: Article 11 of the final GATT text limits the duration and, necessarily, the utility of antidumping duty orders. Under Article 11, all antidumping duty orders will have a lifespan of only five years. After that time, the agency may conduct a review upon its own initiative or upon a "duly substantiated request" by the domestic industry. The order will be terminated unless the agency determines that the expiration of the order "would be likely to lead to continuation or recurrence of dumping and injury."

As recognized by Congress and the courts, antidumping duty proceedings are extremely costly and burdensome. While Article 11 may balance the interests of domestic and foreign producers of manufactured goods, implementing legislation should account for the needs of all domestic industries, including agricultural industries. The U.S. fresh cut flower industry cannot financially support a campaign every four years to protect crucial orders. Flowers are grown year round, and flower production is labor intensive. Flower growers do not have in-house counsel or trade divisions to collect market research data regarding dumping and injury. Many growers jeopardize the productivity of family-operated greenhouses when they devote their time and energy to the collection of financial data for submissions to the International Trade Commission. The

Administration and Congress should make certain that sunset reviews are not unnecessarily complicated, do not require unnecessary information or involve unnecessary expense for domestic producers. For these reasons, adoption of implementing legislation for the sunset provision in Article 11 should reflect the limitations of U.S. industries in need of a strong antidumping duty law.

First, implementing legislation should provide that all existing orders, findings and suspension agreements are to be viewed as effective for "sunset" reviews from the effective date of the World Trade Organization. Likewise, implementing legislation should specifically provide for the full five year period permitted under Article 11 before sunset reviews are required. Second, a "duly substantiated request" by the domestic industry for a sunset review should not require petitioner to file the equivalent of a new petition. Rather, ITA should accept, *inter alia*, evidence of dumping margins in any previous review as sufficient evidence of the likelihood of the continuation or recurrence of dumping. It can be expected that foreign producers have an incentive to curtail dumping during the fourth year of the order prior to a sunset review. Thus, ITA should not revoke an order solely on the basis of lack of dumping during the fourth year. Likewise, with sufficient evidence of dumping, it should be presumed that dumping causes injury to the domestic industry for purposes of initiating a sunset review. The International Trade Commission should also presume that imports will increase where there is underutilized capacity in the exporting countries or plans to increase capacity. Such presumptions could be rebutted by evidence submitted by parties seeking revocation of the order, but otherwise would require the agencies to continue orders in force.

Finally, foreign producers should have the burden to establish affirmatively that continued or recurring dumping is not likely. Current U.S. law provides for the revocation of antidumping duty orders or findings under certain circumstances: (a) cessation of dumping and (b) changed circumstances. Foreign producers have the burden of persuasion under existing law where changed circumstances are claimed (unless the issue is lack of ongoing interest by the domestic industry). Since much of the information relevant to the dumping inquiry is in the possession of the foreign producers and since dumping has not ceased, current U.S. law reasonably allocates burden. The implementing legislation should, therefore, require foreign producers to establish entitlement to revocation.

Compensation: As both the standing and sunset provisions of the final text substantially limit the relief available from injurious dumping, Congress should consider whether the antidumping duty law can continue to be useful tool as it is currently administered. Relief is generally made available only after imports have caused a devastating amount of damage, evidenced by yearly losses, bankruptcies, closed factories, forced layoffs of significant numbers of employees, reduced investments in research and development, and capital expenditures. Yet, neither the GATT nor U.S. law requires industries to exhibit such an extreme level of injury before relief is available. The International Trade Commission should be encouraged to reconsider its current interpretations of the antidumping statute so that relief is, in fact, made available early enough to be useful.

More importantly, petitioners and those in support of the petition should receive all duties finally collected by Customs under the orders. Such funds would (a) provide a powerful disincentive to foreign producers to continue dumping (as all such dumping duties would flow to the domestic producers), (b) offset the ability of related party importers to pay antidumping duties without passing them on to an unrelated purchaser, and (c) allow the injured industry to regain its position in the U.S. market or channel the funds to develop alternative products.

In this regard, Congress should note that GATT Article VI does not prohibit the payment of dumping duties collected to the petitioner and those in support of the petition. While some may argue that such funds are a form of subsidy, even assuming *arguendo* potential actionability (not clear under Article 2 of the Uruguay Round Final Act Subsidy Agreement), such payments would not be prohibited. Based on the first annual report from the Customs Service and the Department of Commerce (covering fiscal year 1992), potential duties paid to domestic industries would be about \$351 million/year (using fiscal year 1992 as typical). While not a significant amount of money to the Federal Government, such amounts would be important to the domestic producers facing continued dumping.

Constructed value: In order to calculate a margin of dumping, Congress has directed ITA to compare the U.S. price of the imported goods to the "foreign market value" of the merchandise. The statute provides three possible bases for foreign market value: (1) the price paid in the home market, (2) the price paid in a third country market, or (3) the constructed value of the merchandise. 19 U.S.C. § 1677b. The statute defines "constructed value" as the cost of manufacturing/cultivation plus general, selling, and administrative costs, plus profit. 19 U.S.C. § 1677b(e)(1). The statute also specifies that general expenses are not to be less than 10 percent of the cost of manufacturing/cultivation and that profit be not less than 8 percent of the cost of manufacturing/cultivation plus general expenses.

The final GATT text eliminates the statutory minimum general expenses and profit amounts in Article 2.2.2. Article 2.2.2 requires that "amounts for administrative selling and any other costs and for profits" be based on actual data pertaining to production and sales in the ordinary course of trade of the like product by the exporter or producer. These changes are troublesome given that, unlike sales prices, constructed value has been viewed as being particularly susceptible to manipulation. The elimination of a statutory minimum amount of general expenses and profit heightens these concerns.

Implementing legislation should address two issues. First, by definition, profit cannot be earned on below cost sales. Yet, under ITA's current practice, ITA will use all sales, whether or not below cost, to determine if the profit amount is above the 8 percent statutory minimum. See Antifriction Bearings from Various Countries, 58 Fed. Reg. 39,729, 39,751 (Dep't Comm. 1993) (Final Results Admin. Rev.). The result is to dilute the amount of profit earned on sales made in the ordinary course of trade, thereby reducing constructed value and the dumping margin. In implementing legislation, Congress should specifically prohibit ITA from using profit amounts that were based on both above cost and below cost sales. According to Article 2.2.2., the profit figure is to be based on actual data pertaining to production and sales in the ordinary course of trade.

For example, in the case of perishable products such as flowers, ITA currently applies a modified cost test to determine if flowers are being sold in the home or third country markets at prices below the cost of production. See 19 U.S.C. § 1677b(b). ITA will use all sales sold if less than 50 percent of respondent's sales were below cost of production. If between 50 to 90 percent of respondent's sales were below cost of production, ITA would disregard only the below cost sales. If over 90 percent of respondent's sales were below cost of production, ITA will not use any of those sales as a basis for foreign market value and would use, instead, constructed value. See Certain Fresh Cut Flowers from Mexico, 57 Fed. Reg. 7732, 7733 (Dep't Comm. 1992) (Prelim. Results Admin. Rev.). Implementing legislation should require respondents to report actual profits on production and sales in the "ordinary course of trade" which excludes those sales excluded under the cost test. Further, Section 1677(15) defining "ordinary course of trade" should specifically exclude sales below cost. 19 U.S.C. § 1677(15).

Second, the profit earned by a related importer should be recognized in the dumping margin calculation. In reporting U.S. sales, exporters with related importers must report the sales price paid by the first unrelated purchaser (or the importer's resale price). This resale price is a proxy for the f.o.b. foreign port price that would have been paid by an unrelated importer. On a sale from an exporter to a related importer, the reported U.S. price will reflect both the exporter and the importer's profit on that sale. On a sale from an exporter to an unrelated importer, the reported U.S. price will reflect only the exporter's profit. Thus, it is necessary to deduct the related importer's (or reseller's) profit from the U.S. sales price for a fair comparison.

Despite the fact that many other countries deduct reseller profit, ITA has refrained from making the deduction because it is not specifically provided for under U.S. law. See Antifriction Bearings from Various Countries, 58 Fed. Reg. at 39,778. In implementing legislation, Congress should amend 19 U.S.C. § 1677a(d) & (e) to direct ITA to deduct the reseller's profit from U.S. sale price.

III. INTELLECTUAL PROPERTY RIGHTS

Article 27 of the Agreement on Trade-Related Aspects of Intellectual Property Rights requires Members to provide for the protection of plant varieties "either by patents or by an effective sui generis system or by any combination thereof." U.S. growers do not generally "own" their flowering plants. For example, rose plants are leased or rented from companies that hold patents. Patents are enforced in the United States by frequent on-site inspections to determine whether new plants are being propagated from the leased plants without payment of royalties.

U.S. breeders have limited ability to enforce their patents on plants in foreign countries. By monitoring the volume of flowers imported from a given country versus the royalty payments, patent holders could detect cheating. But, flowers are not even marked with country of origin information. As a result, U.S. patentholders cannot determine whether imported merchandise is being propagated and sold without payment of royalties. Thus, breeders have an incentive to collect much lower royalties from foreign growers in order to obtain any payments at all. In contrast, U.S. flower growers face high royalties for patented flowers. U.S. growers' royalty payments can be as high as \$10 of a \$10.50 plant, depending on the type of plant. More typically, the royalty on a rose plant is likely to be \$.65 of a \$3.00 plant (including royalty). This situation also translates into a competitive disadvantage for U.S. growers that do pay substantial royalties.

An important objective of the TRIPS agreement is to "promote effective and adequate protection of intellectual property rights." Part I. Toward this end, Congress should direct the Administration to investigate and report on the enforcement of patent rights on plant varieties. The following language is suggested:

In order to obtain complete information on whether foreign flower growers ignore U.S. patents or pay lower royalty payments, it is envisioned that an agency, such as the U.S. International Trade Commission or U.S. Department of Agriculture, will issue an annual report for five years which reviews, *inter alia*, (1) fresh cut flower exporting countries that recognize U.S. breeders' rights to patented plant varieties under domestic law, (2) fresh cut flower exporting countries that adhere to bilateral or multilateral treaties recognizing patent protection of plant varieties, (3) royalty payments made by U.S. growers as compared to foreign fresh cut flower growers/exporters.

IV. COUNTRY OF ORIGIN MARKING

U.S. law requires that merchandise imported into the United States be marked with country of origin information. 19 U.S.C. § 1304. Under § 1304(a)(3)(J), fresh cut flowers, however, have been exempted from this requirement under Customs' "J-List" of articles since 1939. 19 C.R.F. § 134.33. Only the immediate container in which the imported flower ordinarily reaches the ultimate purchaser must be marked with country of origin information. 19 U.S.C. § 1304(b). In practice, only the box or other container of imported flowers will be marked, if at all. Imported flowers are taken out of these containers either by wholesalers or retailers (including grocery stores) before resale to consumers. Hence, the ultimate purchaser rarely sees the country of origin designation on imported flowers.

If the box or other container of imported flowers is marked, the information is often incorrect or misleading. For example, some containers have been marked with the location of corporate headquarters or location of the importer as the "country of origin." Some flowers are even being repackaged in the United States and labeled "made in California." Indeed, Customs has noted in Information Bulletin No. 90-91 (11/28/90) that, through examination of fresh cut flower imports, "some containers show a U.S. address and bear no country of origin marking." Under these circumstances, Customs, the patent holder, and the ultimate purchaser may not know the actual country of origin of imported fresh cut flowers. Of those sleeves with country of origin marking, the ultimate consumer's ability to determine country of origin is frustrated. When flowers are placed in a refrigerated room in buckets, country of origin marking on the bottom of the sleeve in dark printing is not conspicuous to ultimate purchasers.

Congress removed three types of merchandise from the J-List in the Trade and Tariff Act of 1984 to address a similar problem: (1) certain pipe and fittings, (2) compressed gas cylinders, and (3) certain manhole rings or frames, covers, and assemblies thereof. 19 U.S.C. §§ 1304(c), (d), & (e). The legislative history of that amendment indicates that significant evasion of the law prompted Congress to amend the scope of the J-List because conspicuous marking included marking the underside of a manhole cover. 1984 U.S. Code Cong. & Admin. News 4941-42. For these reasons, Congress should specifically remove flowers from the J-List and impose more specific marking requirements, such as tagging every sixth stem. The following language is suggested:

(f) MARKING OF FRESH CUT FLOWERS. -- No exception may be made under subsection (a)(3) of this title with respect to fresh cut flowers which shall be marked with the English name of the country of origin by means of tagging the stems if imported without sleeving or packaging, or by means of printed sleeving or other packaging if imported with sleeving or packaging.

In sum, there appears to have been significant evasion of the law with regard to the marking of fresh cut flowers. Because current law requires that only the outermost container in which the imported flower ordinarily reaches the ultimate purchaser must be marked with country of origin, only the box is so marked. This requirement has been interpreted by exporters to require country of origin marking of the box containing flowers. If the box or other container of imported flowers is marked, the information is often incorrect or misleading. Hence, the law should provide for correct marking in order to safeguard U.S. producers and breeders' interests.

V. PESTICIDE RESIDUES

U.S. pesticide registration requirements discourage the marketing of safer, more effective pesticides which are available to foreign growers, but not U.S. growers. Foreign flower growers, however, are permitted to use more effective, yet extremely toxic, pesticides than U.S. flower growers. As a result, misuse of pesticides has been associated with flower production in Colombia, a chief competitor in the U.S. market. For example, a National Public Radio report has suggested that not only does the use of pesticides in Colombia endanger workers, but they may be contaminating the water table. See Morning Edition, National Public Radio (Oct. 12, 1992); Kendall, Financial Problems Take The Bloom Off A Colombian Success Story, *Fin. Times* 28 (9/14/93) ("The heavy use of pesticides -- required if flowers are to meet most import standards -- has caused health and environmental problems."). Although pesticide misuse in foreign cut flower production has been reported to cause harm to workers and the environment, the U.S. Department of Agriculture has not recently reviewed the consumer safety issue of pesticide residues on imported fresh cut flowers.

In the late 1970's, the U.S. government reported on the potential harm to U.S. florists and consumers of pesticide residues left on imported flowers. In February 1993, the Floral Trade Council requested information updating the U.S. Department of Agriculture's finding of potentially dangerous pesticide residues on imported fresh cut flowers in the late 1970's. According to information released pursuant to a Freedom of Information Act request, a comprehensive residue analysis of imported flowers has not been conducted since 1983. The 1983 study found that, although Plant Protection and Quarantine ("PPQ") officers were not in danger of "high exposure pesticide risk," PPQ officers were to use "Organic Vapor Monitoring Badges" to monitor exposure levels.

In establishing the Multilateral Trade Organization, Members sought to raise standards of living and to "protect and preserve the environment and enhance the means for doing so in manner consistent with their respective needs and concerns at different levels of economic development." Agreement Establishing The MTO, at Introduction. Congress can see to this important objective by requiring the U.S. Department of Agriculture to update its study of pesticide residues on imported fresh cut flowers.

Respectfully submitted,

FLORAL TRADE COUNCIL
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Special Counsel to the
Floral Trade Council

Testimony submitted to the Committee on Agriculture, U.S. House of Representatives, to be included in the record of the hearings held April 20, 1994 in Washington, D.C.

* * *

Because of the potentially devastating effect which the GATT agreement will have upon New England egg producers, the New England Brown Egg Council welcomes this opportunity to submit testimony.

Our Council is a trade association representing virtually every producer of brown eggs in the six New England states. Our offices are located at 77 Water Street, Hallowell, Maine 04347; our mailing address is Post Office Box G, Augusta, Maine 04330.

New England's brown eggs are produced on small family farms and medium and large production complexes through the region. There are six major packing firms which process the vast majority of these eggs for retail:

DeCoster Egg Farms, Turner, Maine
Dorothy Egg Farms, Winthrop, Maine
Kofkoff Egg Farms, Lebanon, Connecticut
Mountain Hollow Farms, Manchester, New Hampshire
Southern New England Eggs, Franklin, Connecticut
Westminster Egg Farms, Westminster, Massachusetts

New England represents approximately 3.3 percent of the nation's egg production, with 9.3 million hens producing 2.5 billion eggs annually. The proportion of New England's egg industry to the national egg industry -- slightly over 3% -- is similar to the ratio of New England's human population to the total U.S. populace. In other words, the egg industry is no more -- and no less -- important in New England than in the country as a whole.

What is significant, however, is the importance of New England to the nation's exports of eggs, and the importance of these exports to New England's egg industry.

Of the approximately 70 million dozen eggs exported last year by the United States, approximately one-half of these exports came from New England. This apparent anomaly results from the significance of egg shell color. The majority of the world's population consumes brown eggs, from the strains of layer hens which produce these brown shell-colored eggs. New England is the only region of the United States with significant brown egg production, going back to the days of the Yankee Clipper ships, when crews brought brown-egg laying hens back from China.

Because of this international preference for brown eggs, particularly in the Pacific rim nations, New England eggs have for years been aggressively exported. U.S. traders years ago established Hong Kong, one of the major importers of eggs, as a major customer for New England brown eggs. In the 1980's, however, the nations of Western Europe, seeking to support high domestic agricultural production through export subsidies, displaced U.S. egg sales to Hong Kong. The major European (EU) egg exporters have been the Dutch.

As members of the Subcommittee are well aware, the United States countered the European export subsidies with our Export Enhancement Program (EEP), which has had marked success and without which the GATT agreement never would have been reached. However, the EEP did not initially include table eggs; when it did, several revisions and adjustments were necessary to make the EEP workable. U.S. egg exports therefore did not increase significantly until 1990. Since that time, U.S. egg exports under the EEP have reached approximately 60 million dozen a year.

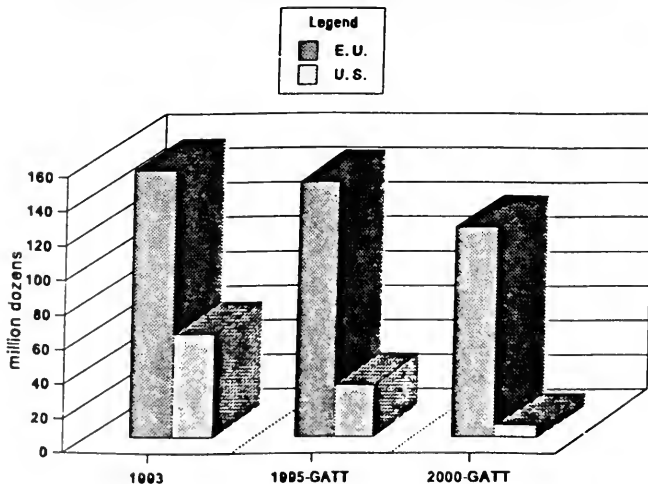
The GATT agreement, however, set 1986-90 as the base period. This places U.S. eggs at an incredible disadvantage. The agreement was modified, prior to signing (Blair House II) to incorporate a base period of 1991-92 for the first year of implementation of the GATT agreement, with the permissible level of "subsidized egg exports" in the final year remaining the same as agreed to earlier.

In millions of dozens, the levels of subsidized egg exports under GATT are now as follows:

	<u>E.U.</u>	<u>U.S.</u>
Present levels of exports (1993 estimates)	155	60
Permissible levels, first year of GATT	148	30
Permissible levels, final year of GATT	122	7

As the graph below indicates, the E.U. will proceed from a current advantage of 2.5 to 1 to an advantage of 5 to 1 in 1995 and nearly 20 to 1 by the year 2000.

IMPACT OF GATT ON EGG EXPORTS



While this agreement is clearly to the disadvantage of U.S. egg producers, it is more than unfair to New England's brown egg producers. To us, it is devastating.

The GATT agreement clearly calls for a 50% reduction in U.S. egg exports in 1995. To the U.S. egg industry in total, this means a loss of 1.5% of total sales. If production levels remain constant, this will mean a drop of 7-8 cents/dozen in the wholesale price for eggs, which will mean disaster for many producers (who are already looking at a tough year in 1995).

New England brown egg producers, however, currently export almost 20% of their eggs under the EEP. In 1995, therefore, they are looking at a loss of 10% of their total sales. Because the domestic demand for brown eggs is inelastic and other export opportunities are limited, the GATT agreement will force a major reduction in New England's egg production. The first to feel these reductions will be the family farms, which are less cost-efficient than the larger complexes. There will also be significant losses of jobs in related industries. In Portland, Maine, for instance, eggs are now the largest single cargo shipped from that harbor.

We recognize that the Congress cannot call for re-negotiation of the GATT agreement. We ask, however, that the Congress' ratification of this agreement be made contingent upon a number of measures designed to limit the effect of this agreement upon New England's egg producers.

Such measures could include:

1. Agreement, to be obtained by the U.S. Trade Representative, for the E.U. to cease payment of the "restitution differential" to its egg exporters.

This "differential" was established by the E.U. to retain the upper hand for its egg exports in countries where U.S. egg exporters are working with the EEP. Now, however, once U.S. egg exports in a given year have reached the level permitted by GATT, there is no justification for continued payment by the E.U. of the differential. This is an unpublicized issue within the E.U. and has not been addressed in the GATT negotiations.

2. Full use of the EEP until the GATT limitations take effect. U.S. egg exporters are preparing to fight aggressively for sales when the EEP is scaled down. They should not be undermined by premature reductions of the EEP.
3. Expanded use of non-branded Market Promotion Program funds. This will enable U.S. egg exporters to retain some sales of eggs for which EEP assistance is being withdrawn.

In the weeks ahead, our Council will be developing other possible methods of counteracting the impact of GATT upon New England's egg producers, and we look forward to working with the Committee on Foreign Affairs in this regard.

REVIEW OF THE URUGUAY ROUND GATT AGREEMENT IMPLICATIONS FOR AGRICULTURAL TRADE

WEDNESDAY, APRIL 20, 1994

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The committee met, pursuant to call, at 10:05 a.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives Stenholm, Volkmer, Johnson, Sarpalius, Long, Peterson, Minge, Pomeroy, McKinney, Baesler, Thurman, Lambert, Roberts, Emerson, Gunderson, Lewis, Smith of Oregon, Combest, Allard, Barrett, Nussle, Ewing, Doolittle, Kingston, Goodlatte, Dickey, Pombo, Canady, and Smith of Michigan.

Staff present: Gary R. Mitchell, minority staff director; William E. O'Conner, Jr., minority policy coordinator; John E. Hogan, minority counsel; Dale More, minority legislative coordinator; Glenda L. Temple, clerk; Anita R. Brown, James A. Davis, and Lynn Gallagher.

OPENING STATEMENT OF HON. E (KIKI) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The CHAIRMAN. The committee will be in order.

We just had a call for a recorded quorum call so I will recess the committee and we will return as promptly as possible to begin the session of this morning.

The committee will stand in recess.

[Recess taken.]

The CHAIRMAN. The committee will resume its sitting.

I might advise our guests and witnesses for this morning that you may have to bear with us. If today is similar to what it was yesterday, there is going to be a vote on every amendment that is proposed on the floor and we may have to be running back and forth. So we will expedite as much as we can. But I do want to advise you that we may have to run back and forth on votes.

We meet today to follow up, as has been promised and has been our custom, on movement in the GATT. It now has been finalized by the signing thereof in Marrakesh last week. I say finalized of sorts, mind you, in parentheses.

The administration provided their views on what the agricultural agreement—the section on agriculture—what it accomplishes for our Nation and for our agricultural sector. They said, among other things, it will reduce tariffs on all agricultural products, provide

minimum access levels for American products into previously closed foreign markets and ensure that sanitary and phytosanitary standards are science-based.

According to them, by the year 2005, the Uruguay Round will increase United States agricultural exports up to or around \$8 to \$9 billion and it will add approximately 190,000 export-related jobs and raise farm income by \$2.5 billion.

The witnesses today represent a range of all who have worked in this endeavor and their respective viewpoints on the economic effect, the pros and the cons.

I know that the budget issue is a major item that we will have to look at in the implementing legislation. There are some who are concerned, a concern I share, that agricultural programs may be asked to bear a significant share of the budgetary burden above and beyond that which we would have contributed in the laws of tariff. There seems to be a feeding frenzy in mass media on agriculture.

There are still those that believe that we can balance the budget and go back to a surplus in our budget if we just shut down the honey program. I wish that that were so because we would shut it down very promptly. But there seems to be this idea in many people's minds, some in high places in this Government or in this administration, that whatever is wrong with the budget, it can be cured by slapping it on agriculture, and—where is the chart?

Mr. ROBERTS. I have several copies, Mr. Chairman.

The CHAIRMAN. You have all seen the chart. If we draw that line one millionth of a centimeter more, you don't see it and that is where they want to aim to balance the budget and provide all the necessary funding.

So today we will hear from many. We want your viewpoint and we want your ideas, and that is what I am talking about. The line you can't see, that is where they want to go and balance the budget. No one used to have charts around here until we came up with this one. Now everybody has charts. The elevator operator has a chart, how much they go up, how much they go down in a day, but we were the first. You heard it here first. You saw it here first. Even my distinguished colleague now goes around giving me some credit for the chart.

Mr. ROBERTS. It is the Roberts-de la Garza chart, Mr. Chairman.

The CHAIRMAN. Neither one of us deserve that much credit. It was our economist, Chip Conley. But only two items, and again very seriously, that little line is the impact, seven-tenths of 1 percent, but yet every time they say we should take it out of agriculture.

But then the other chart, and this is probably the most important one. All you heard yesterday on radio and on TV was that our balance of trade was at the highest deficit this year and this chart shows collectively that everything excluding agriculture is in the red. There may be one item here, one item there. You will hear about cellular phones in Japan and whatever. But the fact is that around 100 and now maybe 20 or more billion dollars is in the red collectively. The only thing green is agriculture. That is the only thing bringing money back—\$18 billion, maybe a little more now, this used to be \$52 billion at one time.

But nonetheless, it is the only green in the horizon as far as balance of trade. That was the purpose of GATT, to open markets, to provide more incentive where we need export enhancement, and they seem to be moving away from that. But yet they want us to take a disproportionate share of the cost and we don't think that it is fair and we are going to see if we can enlighten some people around here in that endeavor.

I will yield briefly to Mr. Roberts.

[The prepared statement of Mr. de la Garza follows:]

Opening Statement by Rep. Kika de la Garza (D-TX)
Chairman, House Committee on Agriculture

Hearing to Review Uruguay Round Agricultural Agreement
Wednesday, April 20, 1994

The Committee meets today as a follow-up to its March 16th hearing when Secretary of Agriculture Mike Espy and Trade Ambassador Mickey Kantor discussed the benefits of the Uruguay Round and its agricultural agreement.

The Uruguay Round is a landmark trade agreement in many ways. When the range of provisions included in the Uruguay Round are fully implemented, this agreement is expected to increase U.S. economic growth by \$100-200 billion each year. Perhaps most significant to this Committee is the fact that this round of multilateral trade negotiations put agricultural issues on the table for the first time -- and even more importantly, an agreement was reached for the first time.

Last month the Administration officials provided their views on what the agriculture agreement accomplishes for our nation and our nation's agricultural sector. They said this agreement will, among many other things: reduce tariffs on all agricultural products, provide minimum access levels for American products into previously-closed foreign markets, and ensure that sanitary and phytosanitary standards are science-based.

According to the Administration, by the year 2005, the Uruguay Round will increase U.S. agricultural exports by 15 percent, or up to \$8.7 billion. It will add approximately 190,000 export-related jobs to the U.S. economy. And it will raise net farm income by as much as \$2.5 billion.

Today's witnesses represent a wide range of agriculture-related industries. They have been asked to provide the Committee with their respective viewpoints on the economic effect -- the pros and cons --- of the Uruguay Round on their specific areas and commodities and on American agriculture generally. It is my understanding that nearly all of our witnesses will mention concern over how the Administration and Congress will address the budget issues created by the implementing legislation, and particularly their fear that agriculture programs may be asked to bear a significant share of the budgetary burden.

We have an extensive list of witnesses who requested time to testify today. We have tried to accommodate all the witnesses' travel constraints, and we look forward to each person's testimony.

OPENING STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. ROBERTS. Thank you, Mr. Chairman. I would associate myself with your very pertinent comments. Mr. Chairman, when I woke up this morning, I knew we were going to have this important hearing on GATT and so I wore this tie, which is the yellow brick road to GATT. I would remind the administration, we are not in Marrakesh anymore, Toto. This is the House Ag Committee and the yellow brick road may have a few potholes that we need to fix.

I stated three concerns in the previous hearing in regards to GATT, in regard to what farmers need to have addressed before lending our full support. One, guarantee the export enhancement program will be used to the maximum allowed by the agreement; two, a commitment to retaining some type of conservation reserve program, CRP; and three, some understanding of where the administration is heading for the 1995 farm bill. It seems to me those answers are starting to take shape and I am concerned.

Instead of a clear unambiguous guarantee that the administration intends to use EEP to the full extent allowed by the GATT agreement, Secretary Espy says that he will bend every effort to maximize its use.

Now, I know the Secretary to be a man of his word. I believe Mike Espy when he says he will do everything he can, but the problem is that just as in other administrations, his will be only one voice among a dozen that will be making that decision. We haven't heard anything from those other voices or from the President, and so we need a full commitment by the President on the export enhancement program.

Now, there is no policy statement on continuing the conservation reserve program. This means that farmers are looking at 36 million acres coming back into production over the next decade and that would nullify much of the expected gains in sales and prices that farmers have been promised in the GATT agreement.

And, Mr. Chairman, last night in budget negotiations, it is my understanding we got at least a partial answer to the question of where we are headed on farm policy. It has been proposed, and I know this is tentative and also flexible, but it has been proposed that agriculture pay 40 percent of the \$14 billion in lost tariff revenue that GATT will cost.

As the chairman has indicated, agricultural imports will account only for \$700 million or 5 percent of the lost tariff revenue. But it is apparent the administration may be asking farmers to cough up 40 percent of the cost. In other words, we are not going to wait on the farm bill. The farm bill will be cut now.

Along with the savings from GATT, mandated reductions in EEP and deficiency payment savings from projected higher prices, this proposal would require an increase of at least 50 percent in flex acres. There is nothing in this GATT agreement that is valuable enough that farmers should pay for it, much less pay that kind of price. It is a watered down GATT agreement. It provides the French 3½ more Kansas wheat crops in subsidized export ability, and this is a nonstarter if we are going to ask agriculture to pay 40 percent of the cost.

I would like to support GATT. Most farmers would like to support GATT, but the present course will make this very difficult. The proposal that agriculture should shoulder nearly one-half of the financial burden of the agreement, as I have said, is a nonstarter. I would suggest that if the administration wants our support for this agreement, we are going to have to find another way to address the budget problem.

I am very interested and eager to hear the witnesses and thank you, Mr. Chairman, for your leadership on this issue and for holding this hearing.

The CHAIRMAN. Thank you, Mr. Roberts. Your statement, along with the other prepared statements from the members, will appear at this point in the record.

[The prepared statements of Mr. Roberts, Mr. Emerson, Mr. Smith of Oregon, and Mr. Everett follow:]

STATEMENT OF REP. PAT ROBERTS AT THE FULL COMMITTEE HEARING ON
THE URUGUAY ROUND, APRIL 20, 1994

Mr. Chairman, at a previous hearing I laid out three concerns that farmers need to have addressed before lending full support to this GATT agreement: 1) a guarantee that the Export Enhancement Program (EEP) will be used to the maximum allowed by the Agreement; 2) a commitment to retaining some type of Conservation Reserve Program (CRP) for the future; and 3) some understanding of where the Administration is heading for the 1995 Farm Bill.

Well, the answers to those questions are beginning to take shape, and there is no reason for farmers to like what they see.

Instead of a clear, unambiguous guarantee that the Clinton Administration intends to use EEP to the full extent allowed by the GATT agreement, Secretary Espy says that he will bend every effort to maximize its use. I believe Mike Espy when he says that he will do everything he can. The problem is that his will be only one voice among a dozen making that decision. We have heard nothing from those other voices, or from their boss, the President. Sounds to me like there isn't going to be any guarantee on EEP.

There is no policy statement on continuing the CRP. This means that farmers are looking at 36 million acres coming back into production over the next decade, nullifying much of the expected gains in sales and prices that farmers have been promised in the GATT.

Last night we got the answer to the question of where this Administration is headed on farm policy. They have proposed that agriculture pay 40 percent of the \$14 billion in lost tariff revenue that GATT will cost. Remember that agriculture imports will account for only \$700 million or 5 percent of the lost tariff revenue. But this Administration wants farmers to cough up 40 percent of the cost!! They are not going to wait until the Farm Bill; they want to gut agriculture now!!

Along with the savings from GATT-mandated reductions in EEP and deficiency payment savings from projected higher prices, the Administration proposal would require an increase of at least 50 percent in flex acres!! There is nothing in this GATT agreement that is valuable enough that farmers should pay for it. Much less pay that kind of price.

Most farmers would like to support the GATT, but the Administration's present course will make this very difficult. Their proposal that agriculture should shoulder nearly half the financial burden of the agreement is a non-starter. I would suggest that if the President wants agriculture's support for this Agreement, he is going to have to find another way to address the budget problem.

(Attachment follows:)

February 23, 1994

GATT AND AGRICULTURE TRADE

Last December the world finally concluded the Uruguay Round of the GATT negotiations. In agriculture, the final agreement can only be seen as a marginal plus for American farmers. The original U.S. goal in these negotiations was to bring a complete end to import barriers and export subsidies for everyone in the world. Over time opposition from other nations, particularly the European Union (EU), heavily eroded the attainable results.

Finally in late 1992 U.S. and EU negotiators reached a "final" agreement at Blair House that reduced export subsidies by 21 percent over six years from a 1986-1990 base period, allowed for a minimum access of imports of at least 5 percent after six years, lowered import tariffs (albeit from a very high level), and provided a scientific basis for health and safety import barriers. While this was far below the original U.S. target, most American farmers accepted that the small gains were worth the sacrifices they would have to make in import protections on some commodities and loss of their own export subsidies. These farmers were repeatedly assured during the first year of the Clinton Administration that Blair House was the "bottom line" for agriculture.

Then at the last minute in Geneva the Clinton Administration made yet another concession to the EU to finalize the agreement. The EU was given the right to phase down their export subsidies at a much slower rate than called for at Blair House. Thus, the EU (our strongest grain trade competitor) would be able to subsidize an additional 8 million tons of grain over six years. Since farmers were told that they would also be able to use additional competing export subsidies, this was characterized as a minor concession.

The ink was hardly dry on the agreement, however, when public statements and rumors inside the Clinton Administration began to cast doubt on the President's commitment to keeping American farmers competitive. A clear movement was underway in interagency circles to significantly reduce or even eliminate the principle competitive tool used in grain exports, the Export Enhancement Program (EEP). This was followed in the President's budget by a proposal to end funding for the Sun Oil Assistance Program (SOAP) and the Cottonseed Oil Assistance Program (COAP). Ending these export assistance programs before GATT is even ratified is a clear signal that support for actually using the export tools legalized in the agreement is lacking in this Administration.

If American farmers are tied to this GATT agreement without the ability to fully utilize the export subsidies that are central to the agriculture provisions, they will not be able maintain their existing share of the world market, much less use U.S. farm efficiency to expand our export trade. Failure to secure a firm commitment from the Clinton Administration to restore funding for SOAP and COAP and to make full use of EEP allowed by the GATT agreement will turn a deal that is marginally beneficial for farmers into a trade disaster.

BILL EMERSON
MEMBER OF CONGRESS
8TH DISTRICT, MISSOURI

HOUSE COMMITTEE ON
AGRICULTURE
HOUSE COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
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STATEMENT OF CONGRESSMAN EMERSON
BEFORE THE HOUSE AGRICULTURE COMMITTEE
REVIEW OF THE URUGUAY ROUND GATT AGREEMENT
APRIL 20, 1994

Mr. Chairman, I thank you and our Ranking Member, Mr. Roberts, for holding this public forum today to discuss a matter vitally important to American Agriculture. America's future relationship with world trading partners has never been more critical and our domestic farmers and ranchers along with related industries will play a crucial role.

World trade is the key to the future of American agriculture. Maintaining our current farm markets is no longer good enough for the average American farmer or rancher. The future economic prosperity of the men and women who ensure the sustained production of food and fiber for the world hinges on our ability to create and expand new markets around the globe.

The farmers and ranchers of this nation are awaiting the final details of our nation's recent efforts to liberalize agricultural trade with our foreign trading partners. World markets change, and our domestic farm and ranch producers strive to evolve and adapt with them. Competing against our world competitors is always

difficult -- but possible. Competing against a world competitor that will not open their own markets is impossible. Today, I am eager to learn of our nation's negotiating success from a private industry point-of-view in addition to knowing what challenges lie ahead in implementing the Uruguay Round GATT agreement.

I stand ready to work closely with this Committee in order to ensure the continued profitable livelihood of American agriculture through world trade. Likewise, I am encouraged by the prospects of a closer trade relationship with our GATT partners and the benefits that American agriculture may gain from such an agreement. The world is changing and American agriculture must be poised to adapt to these global changes. It is my goal to help our domestic farming and ranching producers in this successful transition.

THE HONORABLE ROBERT F. (BOB) SMITH
HOUSE COMMITTEE ON AGRICULTURE
HEARING TO REVIEW URUGUAY ROUND OF GATT
AGRICULTURE AGREEMENT
APRIL 20, 1994

Mr. Chairman, I want to thank you for holding this hearing.

The implementation of the GATT agreement does appear to hold some promise for American agriculture. It is clear it will significantly improve our access to foreign markets, which is where we must sell our farm products if agriculture production in this country is to continue to grow. In my congressional district, a major portion of the agricultural economy is dominated by wheat and beef production, two commodities that could benefit most from this GATT agreement.

However, while I have been, and will continue to be, one of this committee's strongest supporters of expanding trade opportunities, I am not yet convinced that American agriculture will be getting a fair deal when the GATT agreement is implemented. In recent weeks, Members of this Committee have heard all sorts of rumors about how the Clinton Administration will propose to pay for the \$13.9 billion in lost tariff revenue, and some of them are disturbing. In my view, requiring significant reductions in farm programs to help offset a major portion of the revenue losses is not acceptable. I look forward to hearing what the groups represented today will consider fair when Congress decides where this \$13.9 billion will be generated.

We must resist efforts to force production agriculture to contribute a disproportionate share of the lost tariff revenue. At this point, I am

-2-

concerned that the cost of the agreement could fall unfairly on agriculture, despite the fact that revenue losses from agricultural imports account for only 5 percent of the estimated total. In recent years, agriculture has done contributed more than its fair share to government spending reductions.

In addition, we must make certain we continue to effectively use our non-trade distorting, or "green box", programs. Since the GATT agreement mandates a reduction in the amount we can spend on export subsidy programs, like EEP, how we utilize the other "green box" agricultural programs, like the Market Promotion Program, becomes much more important. I know our witnesses will have some insightful comments on this issue.

This GATT agreement was carefully negotiated over seven years, and could be a promising starting point in our efforts to significantly expand American agricultural exports. This Administration, this Congress, and this Committee, must be very careful not to undermine the tenderly-negotiated provisions of the agreement by inequitably and hastily crafting implementing legislation that erases its benefits.

I thank the Chairman.

STATEMENT OF HONORABLE TERRY EVERETT
HOUSE AGRICULTURE COMMITTEE

PUBLIC HEARING ON GATT

APRIL 20, 1994

I want to thank the Chairman, Mr. de la Garza, and my Ranking Member, Mr. Roberts, for their leadership in holding this public hearing on the General Agreement on Tariffs and Trade (GATT).

I am happy to see that the Administration has gained some concessions from Argentina which hopefully will address some of continuing problems concerning peanuts and Canada. The higher tariff rates and other bilateral concessions are a step in the right direction.

As I and other members of the committee have stated in a letter earlier to Ambassador Kantor, Secretary Espy, and the President, we are concerned over the impact of GATT on agriculture. As we look forward to the 1995 Farm Bill, we need to know how willing the Administration is to support the farmer and the various commodity programs.

I am also concerned with how we are going to pay for GATT. Somehow we have to find \$14-\$17 billion to pay for the lost revenue in reduced tariffs over the next several years. I do not favor a budget waiver, nor do I favor raising taxes. I urge the Administration and the agricultural industries affected by this trade agreement to come to a consensus.

I look forward to this hearing, and I will continue to watch the GATT developments with interest.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. And now we will go to the witnesses. I might mention to all of the witnesses that we will observe the 5-minute rule and we will time you and, hopefully, you will be able to summarize your statements.

I might add that we have for the record a statement from the National Pork Producers Council, the Coalition for Food Aid, the Western Growers Association, the National Association of State Departments of Agriculture which, without objection, will appear at the end of the testimony presented in this hearing.

I might also advise my colleagues and the witnesses that when Mr. Roberts woke up this morning, he was 1-year older. So I hope that your testimony will be of such a nature that it will not ruin this very good birthday for him, or that might get him back on the agenda that he very gently put before us.

Mr. ROBERTS. Mr. Chairman, it is my birthday, I wasn't paying any attention, but thank you very much for your very kind remarks here.

The CHAIRMAN. We have—well, they are already at the table, so we will follow the list.

Mr. Larry Diedrich, American Soybean Association.

STATEMENT OF LARRY DIEDRICH, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. DIEDRICH. Thank you, Mr. Chairman, and good morning. My name is Larry Diedrich and I am a soybean, corn, and hog producer from Elkton, South Dakota. I see on the list I have been moved to South Carolina. It was 80 degrees there earlier this week so I will move back to South Dakota this time of year before the summer heat hits.

ASA appreciates the opportunity to appear before you today, on behalf of soybean growers. Mr. Chairman, U.S. soybean growers have traditionally been strong supporters of international trade agreements. As efficient producers, we believe that liberalizing world trade will contribute to our comparative advantage and increase our opportunities for growth of profitability.

We would see direct benefits from opening protected world markets and eliminating exports subsidies and other trade distorting practices. For these reasons, we welcomed President Reagan's decision in 1986 to initiate the Uruguay Round. We emphatically endorse the U.S. goal of complete elimination of global tariffs and export subsidies. We recognize clearly that our industry has the most to gain and the least to lose from a genuine trade liberalization.

Today, some 7½ years later, the benefits the U.S. soybean industry will gain from this agreement are unclear at best, and many members of our industry are questioning whether we can support its ratification by Congress. I cannot overstate how uncomfortable our industry and my own association is to be in this position.

I can tell you, however, that the U.S. soybean producers have left no stone unturned in an effort to achieve a fair and balanced GATT agreement, and I can tell you that we are continuing to seek remedies that will correct the inadequacies of this agreement even after the ink is dried.

In the interest of being as brief as possible, Mr. Chairman, I will not detail the chronology of the events that have led the U.S. oil-

seed industry to this very difficult conclusion. I will simply outline our concerns with the Uruguay Round as it affects oilseed product trade and provide our views on how the present situation can be improved.

In the area of export subsidies, the U.S. oilseed industry is facing unilateral disarmament under the Uruguay Round. The base period which determines the amount of permitted subsidy precedes the period in which the United States finally began using EEP, COAP, and SOAP on a scale sufficient to counter competitors' unfair trade practices.

As a result, current vegetable oil exports under these programs will be reduced by 79 percent by the year 2000. Our industry could adjust satisfactorily to this reduction if the Uruguay Round imposed similar reductions on other major exporters. Unfortunately, this is not the case.

Longstanding oilseed processing and export subsidies employed by Argentina, Brazil, India, and Malaysia are not subject to any reduction commitment under the Uruguay Round. In addition, although the European Union oilseed area is constrained by the Blair House agreement, the European Union oilseed subsidies are not subject to any Uruguay Round reduction commitments.

Even with this unequal treatment, our industry could still compete with export efforts of our competitors if the Uruguay Round opened up sufficient access to world oilseed and oilseed product markets. Unfortunately, few countries have agreed to go beyond the minimum tariff reductions required by the agreement.

One area that GATT does significantly expand market access and could potentially benefit our oilseed sector is trade and livestock products. The Uruguay Round will open significant opportunities for United States pork and poultry products in Europe, Japan, Korea, and other major markets. Increased exports of these products could increase domestic demand for soybean meal. While this growth would be welcome, an inevitable build up of vegetable oil stocks will result, and ways must be found to utilize them for true benefits to occur to our industry.

The bottom line for GATT in terms of its effect on our industry is that U.S. vegetable oil supplies will build as export programs are phased down and few new markets open up abroad. As a result of the more gradual rate of reduction agreed to in Blair House II, these additional supplies from reduced exports will grow in increments of about 90,000 tons per year beginning in 1995 and reaching 505,000 tons in the year 2000 and in every year thereafter. The 6-year phase-down of EEP, SOAP, and COAP exports allows the U.S. oilseed industry some opportunity to make transition to new markets where the subsidies are not needed.

Without new market outlets, however, this growing vegetable oil surplus will have significant effects on oilseed production and prices. Vegetable oil prices will be pushed down toward subsidized world price levels, forcing domestic pressure to reduce bids for seed and/or increase the price of protein meal. Over time, this process is likely to result in a higher cost for U.S. livestock producers eroding the gains won in the market access negotiations for livestock products.

Reflecting these views, we would take this opportunity to recommend several provisions to be included by the administration in its implementing bill for the Uruguay Round. First, as indicated earlier, subsidized exports for vegetable oil must be mandated at full funding levels permitted by GATT. To the extent funds are not used due to volume restrictions on exports, they should be required to augment funding for foreign food assistance programs, specifically Public Law 480.

Second, in the event a budget waiver is not agreed to for GATT, agricultural programs should not be required to pay more than agriculture's share of the cost of the agreement in net tariff revenue losses. We understand this cost to be somewhat less than \$700 million over the 5-year budget baseline period.

Third, budget savings resulting from reduced outlays for agricultural export programs required by GATT, which are not needed to offset agriculture's share of its cost, should be reserved for permitted or green box agricultural programs. In the case of oilseeds, savings should be used to fund a commercialization of industrial products which use vegetable oil as feed stock.

Our industry is currently reviewing options for marketing the increasing supply of vegetable oil which GATT will create in this country. Barring support for a substantial increase in vegetable oil exports under U.S. food aid programs, our best option seems to be development of a biodiesel fuel industry. Establishment of a start-up fund to bid vegetable oil into new industrial uses such as biodiesel holds the greatest promise for our industry over the long term.

I do not want to conclude without reemphasizing our industry has a very real interest and commitment to finding a solution to our problems in the Uruguay Round. We strongly believe this solution cannot be found without the active participation of the administration. We ask for your help and that of other members of the committee in urging President Clinton to understand and address our concerns. The American Soybean Association and its producer members look forward to working with your committee, Mr. Chairman, in addressing these vital issues.

Thank you very much.

[The prepared statement of Mr. Diedrich appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Next, Mr. Boutwell, National Council of Farmer Cooperatives.

STATEMENT OF WAYNE A. BOUTWELL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL COUNCIL OF FARMER CO-OPERATIVES, ON BEHALF OF THE AGRICULTURE COALITION ON GATT

Mr. BOUTWELL. Thank you very much, Mr. Chairman. I am here today on behalf of 22 food and agricultural organizations that have joined together to express concern about options under consideration for agriculture to pay for a substantial portion of the \$14 to \$18 billion estimated cost of the GATT agreement.

It is important to note that the cost of this agreement is a computation of the lost tariff revenues and does not take into consideration at all any of the expanded exports, as well as the associated

economic activity and tax revenues associated with the agreement. The question we would have, very frankly, is if this agreement does not generate enough money to pay for itself, then is it a good agreement for agriculture and for the economy?

Agriculture has long recognized the importance of exports to the growth of our industry. Since the mid-1980's, our lost market share has translated into about \$10 billion per year less in export sales. That is about \$24 billion in economic activity for the economy and a loss of about 200,000 jobs or more to the overall economy.

Very frankly, we had hoped that this agreement would turn around this situation, and in fact, the agreement on the table has the opportunity to increase exports, and I want to emphasize opportunity to increase exports, because it does not guarantee them.

To realize the benefits, we have to have a strong commitment on the part of the Government to assure that we are competitive in the international marketplace and that our policies and programs as well are competitive. USDA has projected by the end of this agreement, some \$1.6 to \$4.7 billion increase in export sales—I know, Mr. Chairman, you said \$8 billion. I think that was 2005. The numbers we have are by the end of the agreement, some \$1.6 to \$4.7 billion. But in developing those numbers they assumed a continuation of support for agricultural and related programs.

As with any multilateral agreement, you have to give access in order to get access. When you give access to the markets in this country, you can be assured that those products will flow in here. When you gain access overseas, that is multilateral in nature, meaning that you got to get out there and compete for those markets and that competition we know will be fierce because, from experience, we have seen that competitors like the European Union will use every available tool that they have to maintain and expand their own market share.

It is important to note that this agreement does not eliminate trade distortions. It only reduces them and in fact you can argue that the relative trade distortions that were in place at the beginning of the agreement will be in place at the end of the agreement. Further, the agreement defined those programs that are considered to be nontrade distorting or acceptable, the so-called green box activities.

Our group of organizations have proposed in a letter to the President that we maintain full funding as provided under the GATT for programs within agriculture, specifically the export subsidy program because we know we have to meet that competition to hold on to those market shares.

Further, that any funds reduced from those programs as a result of the agreement, namely the 36 percent reduction in value of export subsidies, be transferred into green box activities such as market promotion, market development, food assistance programs like Public Law 480, section 416, TEFAP and export credit programs.

Agriculture had been repeatedly assured that no further cuts would be required because of the agreement. Now we are finding that because of the budget, that as much as one-third of the estimated \$14 to \$18 billion may be paid for by cuts in agricultural and related programs. That would be a gross miscarriage of justice to agriculture. As you so correctly stated, agriculture is less than

\$700 million in terms of lost tariff revenues associated with that agreement, or less than 5 percent of the estimated cost of the agreement.

Many in agriculture had looked forward to the GATT agreement being a positive influence. However, if agriculture is asked to pay a disproportionate share, resulting in further cuts in farm programs, as well as cuts in programs designed to assure that we can meet the competition and increase export sales abroad, it is hard to envision how this agreement turns out to be good for U.S. agriculture.

Accordingly, it would be difficult to support such legislation.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Boutwell appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Next, Mr. Brumfield, National Cotton Council.

STATEMENT OF BRUCE BRUMFIELD, PRESIDENT, NATIONAL COTTON COUNCIL OF AMERICA

Mr. BRUMFIELD. Mr. Chairman, members of the committee, I want to thank you for the opportunity to testify before you today. My name is Bruce Brumfield. I operate a diversified farming operation in Mississippi. As president of the National Cotton Council, I carry the concerns not only of cotton farmers but also of ginner, cottonseed crushers, warehousemen, operatives, and textile mills.

I am here to tell you as quickly as I can our primary concerns with this agreement and how we think the implementing legislation should be constructed.

U.S. cotton has viewed the GATT negotiation defensively. The risk of increased subsidized competition caused by the elimination of section 22 import quotas and the phasing out of textile import quotas is not counterbalanced with increased trade opportunities.

However, in the final stages of these negotiations, Secretary of Agriculture Espy, members of this committee, and others, were willing and able to lessen the downside risk to U.S. raw cotton by agreeing to a 16.75 cent tariff equivalent. The result is an agreement that presents far less of a potential downside for U.S. cotton producers than earlier versions.

Mr. Chairman, cotton's greater concern is perception among some in Government that this agreement eliminates the need to continue to fund U.S. agricultural programs. Already the President's most recent budget proposal calls for eliminating the cottonseed oil export assistance program. We have heard reports that agriculture may be asked to shoulder a disproportionate share of the cost of the GATT. And there are concerns that the administration may not forcefully use all export assistance authorities to combat subsidized competition.

Mr. Chairman, this GATT agreement does not end agricultural subsidies. It will liberalize trade, but it is not a cure-all. The international playing field will certainly not be leveled, even if all countries adhere to their commitments. So my primary message to you today is GATT in no way diminishes a need for an effective cotton program. Cotton's best customer, the domestic textile industry, is going to be highly vulnerable under the new GATT. So the post-

GATT cotton and textile trade environment will make an effective cotton program even more important.

Mr. Chairman, I would like to make the following recommendations concerning the GATT implementing legislation.

Although section 22 must be eliminated in order to comply with the GATT 1994, section 22 authority, itself, should not be changed and should be left on the books. When section 22 quotas are changed, countries who are not members of the GATT should not be allowed to benefit. The current cotton program provides for two different special quotas which may trigger uncertain supply and demand and price situations.

There is a possibility that modifications in this scheme might be necessary in order for tariffication under the GATT legislation to be implemented smoothly. If this is the case, we request that the cotton industry be consulted concerning the consolidation of these different provisions. But there is no other need to change the domestic cotton program to comply with the GATT.

Non-GATT members should not be allowed to gain any of its benefits. If this agreement is implemented in the way most are, the People's Republic of China, for example, even though they are not GATT members, will receive the benefit of tariff reductions because of their status as a most favored nation. This does not have to be the case.

Export assistance authorities should be tailored to be GATT consistent. Money taken from direct export subsidization, because of the GATT should be channeled into so-called green box programs in order to enable U.S. agriculture to continue to meet subsidized competition. Market development programs, such as the market promotion program and the foreign market development program, should be strengthened to meet tomorrow's competition.

Export credit and aid programs should be maintained and refined to better adapt to a more competitive marketplace.

Mr. Chairman, we cannot afford to mistake the change of weapons by our competition as a peace treaty. We cannot unilaterally disarm. U.S. cotton industry has other areas of concern in this agreement and with related trade activities. We watch with a hopeful eye the continuing negotiations between the United States, India and Pakistan, countries that insist on wide-open access to United States textile markets, but do not allow any United States competition in their own markets, and we monitor carefully the ongoing access efforts of nonmarket economies.

We would oppose GATT membership for the People's Republic of China and for other nonmarket economies until there are real economic reforms and until their markets are truly open to fair competition and any government programs are transparent.

Finally, reports of large agricultural cuts to pay for GATT threaten to transform this debate from one concerning freer trade to one against reductions in agricultural programs. Additional unilateral spending cuts imposed by agriculture could undermine our program's effectiveness and damage our ability to compete.

Time requires that I end my testimony here and refer the committee to my written statement. I thank you for this opportunity to testify.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Brumfield appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Next, Mr. Yancey, on behalf of the sugarcane and sugar beet industry and who also was a member of the Agriculture Policy Advisory Committee, the APAC.

Mr. Yancey.

STATEMENT OF DALTON YANCEY, WASHINGTON REPRESENTATIVE, FLORIDA SUGAR CANE LEAGUE, INC.; RIO GRANDE VALLEY SUGAR GROWERS, INC.; AND MEMBER, AGRICULTURAL POLICY ADVISORY COMMITTEE, ON BEHALF OF THE UNITED STATES SUGAR PRODUCERS

Mr. YANCEY. Thank you, Mr. Chairman. I want to thank you for holding this hearing. In addition to that, I particularly want to thank you for being so active in your participation throughout this entire process, not only personally, but by sending members of the committee to attend these negotiations.

Mr. Chairman, 8 years ago, at the beginning of the Uruguay Round, the sugar industry was the first to meet with then USDA Secretary Dick Lyng and say, we are with you, we are ready to go to free trade. We are ready along with the rest of the world, to take 100 percent reduction in imports and let's go with it.

The reason we did that is because we are efficient on a worldwide basis; our studies showed the cost of production in the world at that time was 22 cents a pound, well above the 18 cent loan rate here in the United States.

In the area of internal supports, although the sugar loan rate will not be required to be reduced because in the aggregate, U.S. agricultural supports have already been reduced, sugar supports were, in effect, reduced as a result of a congressionally mandated marketing assessment on sugar. This assessment was boosted an additional 10 percent in the last Budget Reconciliation Act.

In the area of export subsidies, the United States is a net importer of sugar so we are not directly impacted by the GATT requirements of a reduction in the quantity of exports or budget outlays for export subsidies, but this mandate will have little effect on the European Union's ability to continue to dump huge amounts of subsidized sugar on the world dump market. This fact will continue to distort the actual price of sugar in the world. More needs to be done on this in the future.

In the area of market access, while other countries and commodities were settling for 3 percent, growing to 5 percent of consumption for market access, U.S. sugar producers agreed to binding the U.S. market at nearly 14 percent of current consumption. In making this concession, U.S. sugar producers have become potential residual suppliers to our own market. We will also incur a 15 percent reduction in our second tier tariff from 17 cents to 14.5 cents by the year 2001.

By agreeing to bind our minimum access, we were assured by administration officials that sugar from Mexico and other countries which may be added to an expanded NAFTA or subsequent bilateral trade agreements, would be included in this minimum level.

Mr. Chairman, we request that GATT legislation should insure there is no misunderstanding on this important issue.

Since the final act of GATT in Geneva last December, problems have developed with our Canadian neighbors involving several agricultural commodities. In fact, there is a big story in the Washington Post today about that. Sugar's problems date back to the United States-Canada Free-Trade Agreement, and we request that Congress insure that the administration sticks to the provisions of the "county lists" that were tabled in Geneva last December in regards to the GATT. These provisions are fair and in fact are overly generous.

Other than the reservations mentioned above, the Uruguay Round agreement poses no particular problem for U.S. sugar producers, but unfortunately, it will have impact on the world sugar market, making very little progress against subsidized exports of sugar. As a result, this country will have to continue to operate a program to insulate consumers and producers from the volatility of prices which characterize the world dump market.

I would like to add that we stand with our fellow agricultural commodities in expressing our concern that farm and related programs should not be called upon to bear an inordinate share of the offset of the on-budget cost of GATT implementation. It makes no sense to try and level the playing field on one hand through the GATT and then to disadvantage U.S. farmers on the other hand, knowing that foreign competitors will be using all that is within their arsenal in agricultural markets around the world.

Finally, Mr. Chairman, we would like to express our appreciation again to the committee, and in particular to tell you that Secretary Espy and Ambassador Kantor have been active in their consulting with us on APAC and we have been made to feel an integral part of this agreement.

Thank you very much.

[The prepared statement of Mr. Yancey appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Next, Mrs. Zeosky of WIFE, Women Involved in Farm Economics. Happy to have you.

STATEMENT OF KAY ZEOSKY, CHAIRMAN, TRADE COMMITTEE, WOMEN INVOLVED IN FARM ECONOMICS

Mrs. ZEOSKY. Before I begin, I have a birthday present for Mr. Roberts and something for you. May I bring it up?

The CHAIRMAN. Save the spotted cow. I do hope GATT isn't going to mess up our spotted cows. Thank you very much.

Mrs. ZEOSKY. Mr. Chairman, members of the committee, I am Kay Zeosky of Turin, New York. I am a member of Women Involved in Farm Economics—WIFE—and serve as chairman of WIFE's trade committee. WIFE is a grassroots organization committed to improving profitability in production agriculture through education, legislation, communication, and cooperation.

We believe that a strong, secure economy in the United States is directly related to a strong, healthy economy in agriculture. We feel that improving profitability on our farms and ranches is essen-

tial for maintaining and improving the quality of life in this Nation. The availability of food is the key to our national security.

While WIFE does not endorse or oppose GATT, it is hoped that my testimony will stimulate discussion between those to be impacted by the agreement and Members of Congress, administration officials, and dairy industry representatives about the GATT's effects on future congressional prerogatives and many existing policies.

WIFE is concerned about the new GATT access amounts, both cheese and noncheese, the administration's plan to auction dairy licenses to help finance GATT, and the need to strengthen cheese importing regulations. With your permission, I will submit the formal portion of my testimony with attachments for the record and will summarize my remarks to you in the interest of saving time.

At a time when the domestic producer is struggling, it is galling to hear that the GATT proposes to reward foreign countries with significant additional quantities of dairy products into the United States. This new allocation is in addition to the large quotas already available to them.

Also, U.S. section 22 dairy import quotas have been eliminated by a process called tariffication. Under tariffication, existing import quotas have been converted to tariff rate quotas and the custom duties on these quotas are to be progressively reduced over time.

Further, the agreement requires the United States to allow minimum dairy imports equal to 3 percent of domestic consumption beginning in year 1 of the agreement. This minimum access expands to 5 percent of domestic consumption by year 6 of the agreement. The minimum import access applies to cheese and noncheese items such as butter, butter oil, and milk powder. Keep in mind that even a domestic excess production of 1 or 2 percent has deterred us from earning a living wage for years.

My questions to you on this aspect of the GATT are, one, what are the new cheese and noncheese access amounts as assigned to each country? What did each country give up to get increased access and what did we get in return?

Two, were foreign countries allowed to pick the varieties for the full 31,000 metric tons without regard to the effect on American consumption patterns and domestic production?

Three, a preferred importer is often a thinly veiled subsidiary of a foreign government or is a government controlled exporter or manufacturer. Why will exporting countries be allowed to pick their own preferred importers for the new allocation?

Four, how will the USDA implement the large noncheese dairy access and how will the administration ensure that these products do not disrupt the domestic market? As part of the GATT agreement, the United States agreed to substantially reduce and/or eliminate many of its Federal subsidies on dairy products to ostensibly make them competitive with dairy products from the European Union.

This is troubling because, as Congressman Gunderson pointed out in a recent press release, the European Union "will be able to subsidize 1.853 million metric tons of dairy exports to our 92,000 metric tons of subsidized dairy exports in the year 2000."

And other members of this committee have informed me that United States exporters will be in competition with other countries, such as New Zealand and the European Union, who can export dairy products at higher subsidies and at quantities greater than allowed for the United States under GATT. No doubt the financing of GATT will impact the agricultural community. In fact, the Journal of Commerce recently reported that a list of budget cuts has been prepared by the administration that will help pay for the GATT.

Mr. Chairman, you and I know that each time any administration wants to pay for any of its misadventures, it looks to agriculture to pay the bill. I wonder if agriculture is once again being asked to pay an inequitable amount. Given all of the above, I would like answers to the following questions.

One, I want to see the administration's list of proposed budget item cuts that will help pay for the GATT. Could you provide me with a copy of that list?

Two, if the administration insists on cutting USDA programs, what programs do they intend to cut and how will they cut them? What is the future of the DEIP program and other similar programs?

Now, the United States, in an effort to offset revenue losses due to the decrease in tariffs, is considering the auctioning of dairy import licenses as an option to help fund the implementation of GATT. This proposed plan directly contradicts previous congressional direction, will not insure against inequitable sharing of imports by a relatively small number of larger imports, and will provide nonmeaningful income when compared to the income loss inflicted upon domestic interests.

These are not just the assertions of some New York farm wife. In fact, USDA FSA official, Carol Harvey, recommended in the USDA April 1981 publication entitled, "Changes in the Import Licensing System for Certain Dairy Products" against the auctioning of licenses because, "auctioning may benefit the larger, financially stronger traders to the detriment of small specialty cheese importers." Ms. Harvey's recommendations are as true today as the day she wrote them.

For example, the new market access given to New Zealand for cheese, plus the increase in noncheese dairy access, means that the New Zealand Dairy Board could negatively influence domestic dairy prices through its U.S. subsidiary by denying availability to customers when prices are low and by pricing its merchandise in the United States in an unfair manner. Hence, American dairy producers will face cutthroat competition from a well-funded, quasi-governmental agency.

Given the predatory practices of other governments, adjustments to the current cheese importing regulations are necessary to ensure equity as the import market adjusts to the GATT. In short, the cheese importing regulations must be strengthened by the Congress.

I should also point out that the Congressional Research Service in its December 9, 1992 report to Congress, "Auctioning Import Quotas to Cut the Budget Deficit," rightfully concluded that, "except for sugar, the value to be captured from auctioning quotas on

the imports of these products, is likely to be small." Equally noteworthy is the fact that the auctioning of cheese and dairy import licenses is prohibited under 19 U.S.C. section 2581.

Under the auctioning scenario, the New Zealand Dairy Board or a similar board with deep pockets could control the domestic markets to suit its purposes. My questions on this aspect of the GATT are: First, the auctioning of the cheese licenses has the potential to put the importing industry into the hands of foreign governments, such as New Zealand and its New Zealand Dairy Board and other giant entities.

Why is the administration pursuing this notion?

Second, a March 1994 USDA FAS publication, "Dairy: World Markets and Trade," states, the question of monopolistic dairy boards, like the New Zealand Dairy Board, was not taken up by GATT. Why not? Third, this same publication goes on to state that the New Zealand Dairy Board does business in an anticompetitive and antifree trade manner. Therefore, does the New Zealand Dairy Board violate any United States antitrust laws?

Mr. Chairman, my concerns are shared by countless dairy men and women trying to make an honest living across the United States. We are individuals who cannot count on quick returns on our money and who cannot abandon our work styles overnight even if we chose to do so.

You see, we were born to the land and with that birthright comes certain responsibilities. Among those responsibilities are accountable stewardship of the land and the obligation to deliver quality and affordable products to America's table each and every day. We have been fortunate in this country. We have not suffered the pains of hunger on our soil.

On the other hand, Europeans have suffered war and hunger. Perhaps that is why they gave up so little under GATT and we gave away so much for heaven knows what in return. The memory of hunger is a long-lasting experience and we may have just signed up for a delayed action ordeal under GATT's dairy provisions.

My final question to each of you today is: Which of you will work with us to try to ameliorate the potential for harm to the dairy sector under GATT? I have prepared a suggested list of legislative initiatives which hopefully address some of the GATT's failings for the dairy sector.

With your permission, I will submit them for the record as part of my formal remarks for your consideration.

Mr. Chairman, thank you for the opportunity to appear before you and your colleagues today.

[The prepared statement of Mrs. Zeosky appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. We appreciate your testimony. Without objection, some of your attachments will appear in the record.

And again, thanks for the T-shirts, and I notice that they say made in the USA.

Next, Mr. Barr, National Milk Producers Federation.

Mr. ROBERTS. I also notice, Mr. Chairman, that they are extra large.

Mrs. ZEOSKY. They will shrink.

**STATEMENT OF JAMES C. BARR, CHIEF EXECUTIVE OFFICER,
NATIONAL MILK PRODUCERS FEDERATION**

Mr. BARR. Thank you very much, Mr. Chairman. The National Milk Producers Federation appreciates this opportunity to testify this morning and appreciates the fact that you are holding these hearings and your continued involvement in this GATT process as it unfolds.

My name is Jim Barr. I am chief executive officer of the National Milk Producers Federation. It is no secret that the dairy industry has been very concerned from the beginning about the evolution of the GATT process because we considered section 22 import quotas to be a linchpin of U.S. dairy policy and it was obvious from the beginning that section 22 would not survive the GATT Round.

With that, we began to work very closely with U.S. negotiators in trying to forge the best GATT policy for dairy that we could achieve, and we asked our negotiators basically for three things. We asked them for meaningful access into the world market, particularly Mexico and Canada.

We asked them for a continued fully funded dairy export incentive program, particularly in light of the heavy continued export subsidies from the European Union, and we asked for their support in creating legislation to establish a marketing board for dairy so that we could reach our full export potential in the new GATT world.

And what have we received? On market access, particularly in Canada, we have been told by our negotiators that we are being traded off for other interests and we are not going to achieve the minimum access requirements as established under GATT.

We are very concerned about this. We have worked very closely with Secretary Espy and his staff. We have gotten their support and their continued efforts to get minimum access into Canada, yet it would appear that there are others within the administration that would trade off dairy for other interests, as I said.

On the dairy export incentive program, we are very concerned that the United States is on the verge of unilaterally surrendering its export subsidies under the dairy export incentive program and the export enhancement program. History clearly indicates that if our desire is to disarm, you certainly don't become the first at the table to disarm. We need to continue those programs so long as the European Union is going to continue to take advantage of tremendous amounts of export subsidies.

And finally, Mr. Chairman, on the creation of the marketing board, we continue to be frustrated by lack of real support from the administration and from the Congress for the creation of this body which we feel is badly needed.

What would we ask of you here today? We would ask for your help on encouraging the administration to make sure that the dairy industry achieves market access into the world markets and that Canada is required to live up to its minimum commitments under the GATT.

We would ask for your continued support on fully funding the dairy export incentive program and the export enhancement program so that we will have a chance to compete in this new world market.

And finally, we would ask for your help and your support in establishing a marketing board so the U.S. dairy industry can reach its full potential as we move forward into a new world of international trade.

Thank you very much, Mr. Chairman. We will be happy to respond to your questions.

[The prepared statement of Mr. Barr appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Next, Mr. Huber, Farmers Union Milk Marketing Co-Op, Madison, Wisconsin.

STATEMENT OF STEWART G. HUBER, PRESIDENT, FARMERS UNION MILK MARKETING COOPERATIVE

Mr. HUBER. Thank you very much, Mr. Chairman. My name is Stewart Huber. I am a Wisconsin dairy farmer, but I represent producers in eight Midwestern States through the Farmers Union Milk Marketing Cooperative. I will summarize my written remarks and request the full transcript be entered into the record.

At the outset, let me say, we have heard the hype and claims about the benefits GATT will bring to agriculture in opening markets, about export expansion in terms of billions of dollars of sales. While some commodities could conceivably benefit, we, and increasingly others, believe the dairy industry will be the real losers under the Uruguay Round.

Note attachments of views of others who share our concerns.

Our negotiators, by trading away our section 22 provisions, have put U.S. milk producers at the mercy of a global fire sale dumping pricing situation and made domestic program initiatives extremely difficult to create.

Please note an attachment showing world dairy prices are about one-half of current domestic levels, and ours, by the proponent's own admissions, is not likely to recover any time soon.

Please note as well, as Mrs. Zeosky pointed out, the table showing the dramatic adverse impact the minimum access provisions will have on our domestic supply situation over the 5-year period. A 50-percent increase in imports in year one and a 250-percent increase in year six. We have been told that minimum access provisions can't be changed and yet, as we cite on page 3 of our paper, importers have apparently been successful in doing just that.

This really suggests that the specifics of the Uruguay Round is not chiseled in stone after all. We should hope this committee could provide some valuable assistance in getting our negotiators to go back to the table to push for improvements that would make this agreement less harmful to our industry.

Provisions for export subsidy reductions are clearly uneven and unfair. A member of this committee questioned why the E.C. will be allowed 100 times more export subsidy for cheese as allowed by the United States, 17.5 times as much butter and butter oil, and get this, a whopping 939 times as much other dairy products as we are allowed.

How on Earth can we compete in that dumping ground world market with all the cards stacked against us? Face it, the dairy export incentive program which provided the only significant export

opportunity in the recent past will be significantly limited by this new agreement as well.

On page 4 of our written report, please note the warning by FAS, and the failure of the Uruguay Round to address the issue of the anticompetitive and already formed entity of the New Zealand State Trading Company. Based on a FAS report, we urge the committee request a formal opinion by Justice and IRS to see if the New Zealand Dairy Board actions may violate United States anti-trust laws.

On page 5, we cite the dairy food safety problems created by GATT. I am sure I don't have to remind any member of this committee that U.S. dairy farms and plants face increasingly costly, stiff phytosanitary environmental drug and antibiotic regulations on their products, premises, and equipment. No such rules apply to foreign farms or plants, creating an unfair double standard and putting consumers and producers alike at risk to a flood of new imports.

We request Congress to transfer dairy inspection authority from FDA, which lacks authority to inspect foreign dairy farms and plants, over to USDA that does have such authority, along with foreign assessment authority as well.

On page 6, we say, don't make dairy farmers pay for the \$13.9 billion budget shortfall in tariff reductions under GATT. We are already the big losers.

And finally, we fear this hearing is not about a new trade agreement but rather about the abdication of our ability to chart our own destiny. The world trade organization which replaces GATT, once GATT is ratified, will be run by faceless bureaucrats who will wield enormous power and usurp our sovereignty to establish and enforce sanitary standards and other fundamental policy questions. The World Trade Organization will be a treaty, not an agreement, and should require a two-thirds Senate majority rather than single majority of the Congress to ratify.

Our time is up. We have made specific recommendations on page 7 of the implementing legislation.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Huber appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. We appreciate the testimony of all of the witnesses. We have, back-to-back, two votes on the floor. We will come back if you would remain for questions that members might have afterwards.

So we will take a short recess. We should be back hopefully in about 10, no later than 15 minutes, so relax while we are gone.

The committee will stand in recess.

[Recess taken.]

The CHAIRMAN. The committee will be in order.

Any member have a question to any one of the panel?

Mr. Gunderson.

Mr. GUNDERSON. Thank you, Mr. Chairman.

Mr. Barr, we had an experience in the North American Free-Trade Agreement where, very frankly, the sugar industry was able to negotiate with the administration over a number of provisions

that changed what was, up to that point, an unacceptable agreement from their perspective into an acceptable agreement.

When you look at GATT, at the continuing negotiations with Canada, at the possibility of auctioning off import quotas, and at the allocation of that quota on a monthly basis, do you believe and is National Milk willing to see if they can bring the dairy industry in this country together as to what conditions would be necessary to make the agreement acceptable to the dairy industry and see if we can articulate those in a unified way? Mr. Huber may want to comment on this too because he has been involved in the export negotiation side of this as well.

I mean, is that possible? And if so, would National Milk be willing to take the lead on that type of thing?

Mr. BARR. I think that is an excellent question, Mr. Gunderson, because I do think that is possible. It is something that we have been doing with the Department of Agriculture as they have worked in negotiating the GATT agreement, but as you know, they are no longer the primary negotiator here.

There are other administration interests involved and their agenda may be slightly different than the agenda that we have seen thus far from Secretary Espy and his people. So in answer to your question, yes, we would very much like to have that opportunity.

We do think there are some specific things that could be done consistent with the trade agreement that we could do outside of that agreement that could bring about that kind of support.

Mr. GUNDERSON. Is it realistic to ask you to see if, say within a month, we could have a consensus of what those specific items ought to be?

Mr. BARR. I think within a shorter timeframe than that, we could get one from National Milk. Trying to bring some of the other organizations in under that umbrella, I am not sure, but we would certainly be willing to make that effort.

Mr. GUNDERSON. Mr. Huber.

Mr. HUBER. I certainly concur that such proposal needs to be explored and we would be more than happy to participate in such a venture. We think it is absolutely necessary to get done if this GATT agreement is to be implemented and not damage our industry.

Mr. GUNDERSON. Thank you both.

Thank you, Mr. Chairman.

The CHAIRMAN. Any other questions? If not, we thank all the panel. We appreciate your contribution. I assure you it will be very helpful.

Next panel, Mr. Watts, on behalf of the rice industry; Mr. Merja, Wheat Growers; Mr. Senter, American Corn Growers; Mr. Drake, National Cattlemen's; Mr. Mullins, Meat Export Federation, and Mr. McGrath for the Florida Citrus Mutual.

We will begin with Mr. Watts, and we will appreciate it, to the extent that you can summarize your statement.

STATEMENT OF ROBERT WATTS, VICE PRESIDENT, COMMODITY AND INTERNATIONAL, RIVIANA FOODS, ON BEHALF OF THE RICE MILLERS' ASSOCIATION AND U.S. RICE PRODUCERS' GROUP

Mr. WATTS. Good morning, Mr. Chairman. My name is Robert Watts. I appear this morning on behalf of the U.S. Rice Millers Association and the U.S. Rice Producers Group. I am currently serving as chairman of the board and live and work in eastern Texas where I am vice president for commodity and international for Riviana Foods, Inc., a rice milling and marketing firm.

The United States rice industry has faced the rigors of international competition for many years and has maintained a 15 to 20 percent share of world trade. Today, U.S. rice is sold in 116 countries and our industry is widely recognized for quality and as a reliable supplier. Having a major stake in international trade, the United States rice industry believes it was important a good GATT agreement be reached in the Uruguay Round.

The United States is a competitive international rice marketer in spite of extensive Government intrusion in the production and marketing sectors of our export competitors, current customers, and potential customers. Unfortunately, the damaging effects of such intervention will not be completely repaired with the implementation of the Uruguay Round agreement.

While the end of import bans in Japan, South Korea and hopefully other countries provide a great deal of optimism for an expanded and strengthened world rice market, there are a number of trade practices among other countries, most notably the European Union, Thailand, Vietnam, and others which give rise to our concern.

Although agricultural export subsidies have been disciplined by the Uruguay Round agreement, they have also been legitimized by it. We believe the European Union will take every opportunity to fully capitalize on this new understanding regarding export subsidies. We, therefore, urge each and every use of every GATT legal tool to maximize exports of U.S. rice. This includes aggressive use of an export enhancement program when necessary to counter unfair trade practice of the European Union.

We request that EEP be made available for use in all markets where the United States faces subsidized competition from other countries such as Vietnam and Thailand. The EEP has never been used against Thailand or Vietnam in spite of ample evidence of exports subsidies and subsidized state trading.

We also favor continued funding for other market development and market expanding programs, such as the market promotion program, foreign market development program and food aid programs. Continued full funding of food aid programs is consistent with the commitment made to developing countries that the Uruguay Round agreement would not adversely affect the availability of food aid.

The United States rice industry has been a strong and active supporter of Uruguay Round since the outset of negotiations. While the agreement falls short of the original U.S. objectives, the industry fully supports the agricultural provisions because of the

progress they will make in providing greater access to rice markets of GATT member countries.

We believe the removal of import bans, conversion of nontariff barriers into tariff equivalents, reduction of tariffs and the decline of subsidized exports will significantly expand and improve the global rice trading environment.

We urge the U.S. Government to aggressively seek to build on the progress that has been achieved with this agreement in future negotiations. Moreover, given the likely entry of Taiwan to the GATT in the near future, the United States rice industry expects the United States Government to obtain, as a condition for accession, an agreement that provides for clear and significant rice market access.

Based on the information available as of today, we find the agreement to be reasonably equitable and reciprocal. For example, although Japan was not subject to immediate tariffication and a tariff reduction schedule under the terms of the agreement, Japan offered a larger quota than required under the Dunkel formula.

However, the industry does have reservations over South Korea obtaining developing country status. This enabled that country to avoid the more stringent disciplines imposed on developed countries.

The European Union commitment to maintain its current import access levels for rice, while a positive development, does fall short of meeting the Uruguay Round objective of expanding market access opportunities. The industry requested that a tariff rate quota system be established by the European Union to satisfy the market access objective of the negotiations. However, the European Union rice market access provisions, including a bound tariff schedule and a bound margin of preference would generate additional market access if implemented as the United States rice industry currently understands them.

We are concerned that market access commitments and mechanisms for some countries are not complete. We believe it is inadequate for those countries to be allowed to have binding commitments offering less access than a GATT member of comparable economic status.

Finally, we are opposed to any proposal in the implementing legislation that would burden agriculture with a disproportionate cost of implementing the Uruguay Round.

In summary, we would urge Congress to approve the Uruguay Round agreement but require the administration to, one, fully utilize all allowed export assistance; two, accept nothing less than full compliance by all GATT members with terms, conditions, and provisions established for their GATT determined economic status; and three, not ask agriculture to bear more than its share of the cost of implementing the agreement.

Thank you, Mr. Chairman, for this opportunity for the rice industry to make its concerns and hopes heard to you and the committee regarding the Uruguay Round agreement. I will be happy to answer questions.

And may I close by wishing happy birthday to your colleague.

[The prepared statement of Mr. Watts appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Next, we have Mr. Merja, National Association of Wheat Growers.

**STATEMENT OF CHUCK MERJA, SECRETARY-TREASURER,
NATIONAL ASSOCIATION OF WHEAT GROWERS**

Mr. MERJA. Thank you, Mr. Chairman, and members of the committee. I appreciate the opportunity to speak on behalf of the wheat growers of the country today. I am a wheat grower from the State of Montana, and I appear today as the secretary-treasurer of the National Association of Wheat Growers.

We have supplied a written statement and I will try and summarize that.

The CHAIRMAN. All of the statements will appear in the record as they are presented to the committee.

Mr. MERJA. The goal of the Uruguay Round trade negotiations was reformed. We believe that the results, even after the end of the 6-year implementing period, will be fairly modest for wheat growers. The United States farmer's ability to export to new and sustained markets will largely be determined by how the administration and Congress intend to proceed on the implementation of the Uruguay Round agreement.

In the case of wheat, when fully implemented, the new GATT agreement will have curtailed European wheat subsidies by an amount roughly equivalent to a poor wheat crop in Italy, significantly less than a poor wheat crop in Kansas. In other words, not very much.

Moreover, the GATT accord will do nothing to discipline the unfair trade practices of monopolistic State trading agencies or other countries who employ predatory pricing practices to enhance world market share.

And if you think that State trading agencies are as benign as our negotiator apparently, then you should come to Shelby, Montana where 47 percent of last year's wheat crop is still under loan, even though the elevators there have handled record amounts of wheat.

We have done precious little in this agreement to change the fact that the highest cost producer will still be the largest producer and exporter while lowest cost producer countries struggle for market share.

The National Association of Wheat Growers recommends four following issues: The EEP be redefined to focus on foreign market development and export expansion; that EEP operations must be broadened to include all foreign markets and streamlined to increase effectiveness; that EEP funding must be made available and must be required to be used to the full extent permitted by GATT; and that outlay reductions in EEP required during the GATT implementation period must be redirected to fund green box export programs.

In that light, nothing strongly supports a requirement that those reductions in EEP required by GATT and other subsidy programs be shifted to export development activities not subject to reduction under GATT.

On this point, we are discouraged by the administration's decision to cut support for green box export promotion programs in fiscal year 1995. We think that that is very naive.

In its budget request, the USDA reduced its funding for the foreign market development program, the market promotion program, Public Law 480, food for peace program by \$320 million. It completely eliminated SOAP and COAP and it is disturbing to see the United States continuing to unilaterally disarm its export programs, particularly those permitted by GATT, even ahead of the implementation of the Uruguay Round agreement.

The NAWG strongly urges the administration to take a highly aggressive stance in the operation of the EEP program prior to the Uruguay Round agreement entering into force.

In closing, I would like to say, as many other preceding me have talked about, the budget implications and who is going to pay for the implementation of the GATT Round. In my testimony, we talk about a third of the burden and now, as Mr. Roberts said, we might be 40 percent. That is totally unacceptable to the wheat industry.

We, according to USDA's own analysis, wheat farmers can only expect to see income increases by some 6 percent at the end of the 6-year implementing period, and that surely would not offset any of the costs that we are talking about. And in fact, the last administration, when Mr. Bush signed the 1990 Budget Reconciliation Act that cut \$13.8 billion out of the agricultural budget, said that we were supposed to recover those by a good GATT agreement, so we are already \$13 billion in the hole and we have already given at the office.

Again, we would like to thank you for the opportunity to appear here today and look forward to working with you and the administration to make sure that the Uruguay Round implementing bill is something that we can all be happy with.

[The prepared statement of Mr. Merja appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Next, Mr. Senter, American Corn Growers.

STATEMENT OF DAVID SENTER, DIRECTOR, CONGRESSIONAL AFFAIRS, AMERICAN CORN GROWERS ASSOCIATION

Mr. SENTER. Thank you, Mr. Chairman. I am David Senter, director of congressional affairs for the American Corn Growers Association. We would like to thank you, Mr. Chairman, for being such an advocate for agriculture and farm programs, and it is very important in these days where it seems like farmers, farm programs, USDA, is under attack daily in the press. It is very important to have people speaking out strongly in support of U.S. agriculture and we appreciate it.

Over the course of the negotiations on GATT, our organization has monitored the talks very closely, traveling to Geneva, Tokyo, and other cities around the globe to find out what was being proposed and the impact that it would have on world trade and how it would affect America's family farmers, and in particular, those producing corn and feed grains.

Our members have written thousands of letters to the Reagan, Bush and Clinton administrations, to Members of Congress, describing specific concerns that we have with the treaty.

One of our primary concerns that has been voiced by many other groups throughout the process is we oppose the elimination of section 22 provisions that protect U.S. agriculture from unfair imports. We also oppose the elimination of the Meat Import Act.

We will be replacing these effective laws with ineffective tariffs which will then be phased down or out over time, and given the ease in which countries can move the value of their currencies, it makes it very difficult to put in place any kind of a program that will work as effectively as what we have now.

We are concerned with the GATT agreement, the mandates for minimum import into our domestic market. We have a number of commodities where we import less than 5 percent, dairy, peanuts, soybeans and some other commodities. So this agreement is going to mean we will be competing for our own domestic market in addition to trying to go ahead and penetrate into the world market.

We believe that the negotiations should have concentrated much more heavily on reducing and ultimately banning export dumping, but the agreement did not.

We have a large concern about what the U.S. agreed to in a peace clause to not challenge GATT legal subsidized imports for 9 years. Why would the United States agree not to challenge imports for 9 years not knowing from year to year what the situation is going to be? Just look at the Canadian experience now and it is quick to see how situations can change very drastically.

We oppose the direction in the GATT deal to move to direct welfare-type decoupling payments rather than farm programs. Farm programs are not welfare programs. Currently, one of the most talked about schemes is the revenue assurance plan.

If Federal or State food safety standards are more strict than global standards, they will be open to GATT challenges, trade barriers when applied to imported foods. The final agricultural agreement should address the problem of how to fairly share the cost of maintaining the world's food reserves and the problem of how to equitably share the burden of reducing stocks when they grow to levels that are market disrupting.

We believe family farm income will be reduced and this will occur through cuts in price support programs, elimination of import controls and other means, the AMS, the aggregate measure of support, after they look at every local, State and Federal program that results in higher agricultural prices or lower farming expenses. Once this is bound and then reduced by 20 percent, we believe one of the major flaws is that there is no provision for increases in the costs of production or in currency fluctuations in other countries to solve the problems that we are going to have once you go into this process.

We all know that with the Clean Water Act, with new conservation and environmental criteria coming down the road, it increases the costs of farming. All of these things should be reflected in these agreements.

We believe that mandating imports of commodities that are already in surplus will lower prices and increase losses to farmers.

Export dumping of agriculture products currently prohibited under various GATT arrangements is now approved and the new text is written to override this prohibition. The most troubling aspect of the treaty is the attempt to write the next farm bill through these negotiations.

The treaty makes GATT illegal many of the programs that work well at low cost to taxpayers. We believe that the deal is an end to food security and sets in place a race to the lowest price and quality. It sets up an intensive farming pattern that threatens all efforts to move to sustainable agriculture.

Two other quick points. We believe that this is a treaty and not just an agreement because it overrides local, Federal and State laws. The appeal process set up in the World Trade Organization will set their own rules and it removes it from the United States, U.S. courts, Congress, or officials, and unless major changes are made in the proposal as Congress considers it, which will be very difficult, ACGA will have to oppose passage of this based on these concerns.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Senter appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. We appreciate your testimony.

Next, Mr. Drake, National Cattlemen's Association.

STATEMENT OF BOB DRAKE, PRESIDENT-ELECT, NATIONAL CATTLEMEN'S ASSOCIATION

Mr. DRAKE. Good morning, Mr. Chairman, and thank you gentlemen for being here. I know you have had a hectic day and a lot more going on. I am a cattleman from southern Oklahoma, and I am the president-elect of the National Cattlemen's Association representing 230,000 cattle producers nationwide.

Mr. Chairman, the National Cattlemen's Association supports Uruguay Round of the General Agreement on Tariffs and Trade, GATT, because it represents a good business opportunity, we think, for our industry and for America as a whole. During the last decade, we have worked aggressively to develop access and to expand our foreign markets. We realize economic growth in our industry is dependent on continued growth in our export markets.

In 1994, the U.S. beef industry will export 12 percent of its value and its production. This compares to less than 1 percent 10 years ago. Export growth has been the result of hard-fought negotiations and gaining access to the markets abroad. We cattlemen know our product can compete in the world market if it is given a fair opportunity.

Reducing trade barriers and gaining market access have been and will continue to be our top priority. It is in this spirit of new market opportunities that the National Cattlemen's Association supports this GATT agreement.

The Uruguay Round of the GATT will establish guidelines in the area of market access, export subsidies, sanitary and phytosanitary measures. Additionally, U.S. agricultural exports will benefit from a number of bilateral commitments with various countries.

The reduction of trade barriers will allow U.S. commodities, such as beef and beef products, greater access to the foreign markets. Under the GATT, nontariff barriers will be converted to tariff equivalencies, or tariffication. This will force countries to maintain minimum access opportunities where there has been little or none in the past, and it will ensure that current access levels are sustained.

Japan, the largest beef export market for the United States, will reduce its tariffs from 50 percent to 38.5 percent throughout the 6-year implementation period. According to Dr. Chuck Lambert, the director of economics for the National Cattlemen's Association, reduction to a 38.5 percent tariff indicates that annual U.S. beef exports to Japan will be 53,000 metric tons larger at the end of this 6-year period.

Similarly, under the GATT, South Korea has agreed to gradually expand its annual import quota for beef from 106,000 metric tons in the first year to 225,000 metric tons by the year 2000. This portion would increase our U.S. portion to 40,000 metric tons at the end of this agreement.

A reduction in export subsidies, particularly by the European Union, will create equitable competition in world markets. Export subsidies will be reduced by 21 percent in regards to quantity and 36 percent in terms of budgetary outlays. These subsidy reductions, to be phased in over a 6-year implementation period, will create trade opportunities for U.S. producers who are more efficient than producers elsewhere in the world.

Likewise, the Uruguay Round establishes a strong potential for further reductions in export subsidies through future negotiations.

Under the sanitary and phytosanitary, SPS, agreement of the GATT, any trade-restricting measures used by an importing country to protect human, animal, or plant health must now be based on science. This provision includes the use of risk assessment techniques.

The SPS text allows for countries to maintain standards which are stricter than international standards, but they must be justified by science. This provision will prevent countries from using health requirements as barriers to trade when in reality they have absolutely no relation to health protection. We urge this framework be used vigorously to finally resolve the United States-European Union hormone dispute.

We urge you to adequately fund programs which fit the green box definition. If the beef industry is to achieve the export market gains expected, these programs are vitally important. The market promotion program, MPP, is instrumental in developing these markets once access is achieved. Rest assured, our competitors will not back away from the commitment to get their fair share of these new markets. The MPP and other international programs must be utilized effectively and aggressively if this round of GATT is to be judged as a success.

As the process moves forward, GATT implementation legislation should not force U.S. agriculture to bear a disproportionate share of the budget costs. We find it ironic that trade agreements would be judged a revenue loser, given the growth opportunities and expected sales of U.S. products which generate revenue.

Thank you for this opportunity to share our views, Mr. Chairman.

[The prepared statement of Mr. Drake appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Next, Mr. Mullins, United States Meat Export Federation.

STATEMENT OF JAMES MULLINS, CHAIRMAN, UNITED STATES MEAT EXPORT FEDERATION

Mr. MULLINS. Thank you very much, Mr. Chairman.

My name is Jim Mullins. I am a grain and livestock producer from Corwith, Iowa, and, to be honest with you, I would rather be back in Iowa planting corn where the conditions are right there now, but I do appreciate the opportunity to be here this morning.

I am currently chairman of the United States Meat Export Federation, an organization that is involved in the export of red meat overseas. I will try to summarize my testimony to keep us on target as much as possible.

GATT has been a long 7 years trying to get it ready to go. It shows the tough nature of international trade.

One thing I think we need to continually keep in mind, with all the problems and things that we can find wrong with it, this is the first time in history that GATT has even approached some kind of agreement in agriculture. I think that is positive. The Uruguay Round will have a positive influence on the exports of red meat. Maybe short of expectations, but it is a step in the right direction.

One of the greatest pluses, the sanitary and phytosanitary section. Food safety will be decided on science, not on politics, not on economics. We have now an opportunity to come to a positive conclusion on the argument about the use of growth-promotants and the Third Country Meat Directive, things that have been used as nontariff trade barriers in the European Union.

Second, market access. It is a mixed bag. Beef first. Ninety-three percent of the beef that is exported from this country goes to four countries, Japan, Korea, Canada, and Mexico.

Japan first. As has been pointed out, the duty will decrease from 50 percent down to 38.5. The potential in Japan is still untapped, about 20 pounds per capita. We got a long ways to go. Great opportunities.

Korea, going to push back some liberalization. It was set for 1997; now pushed back to the year 2000. That is kind of a step backwards. However, the quota will go up from 106,000 metric tons to 225,000 metric tons. That is a plus. A 100 percent surcharge today will go out at the end of the period. That is another plus.

We do have the opportunity today to begin to sell to end users in Korea. That is a plus. Not strictly to those Government entities that used to buy and then sell. However, I would caution that Koreans have a consistent record of failure to live up 100 percent to agreements that they have signed in the past. So I would be concerned with that.

The NAFTA did give beef and pork the opportunity to export to Mexico and Canada. That is not affected by the GATT. That will also be a plus. It does give us less competition from the European Union here at home. In other words, the third and I think very im-

portant part of GATT is the fact that there has been an agreement by the European Union that they will not send subsidized beef to the new markets in the Pacific Rim, and that includes Japan. That is a very important agreement.

Let me go into pork just a little bit more specifically. We did achieve greater gains in access for pork than we did for beef, especially into Japan and the European Union.

Sixty-three percent of the exports of pork do go to Japan. A variable levy system in Japan that has been used to raise the cost of imports has been used to restrict access to the Japanese market.

Over the 6-year period, that will be reduced by 29 percent. And a real plus to this is that 20 percent of that reduction will come in the first year. It will help us compete with Taiwan, which has close proximity to Japan. It will also help us compete with the European Union, which heavily subsidizes its pork exports to Japan. Today, the European Union spends \$50 million in subsidies to export to Japan, \$50 million. That is tough to compete against.

Protection under the GATT against import surges in Japan: We are a little concerned about the snap back provision at 118-percent increase in any year over the previous year, then we do revert back to the current subsidies that were there—I mean, to the tariffs that were there previous to that. We think it should have been a little bit higher than that. It is something we can live with. It is a concern.

Pork to the European Union. Another great plus. The quota has been raised to 75,000 metric tons. In 1993, we exported 1,500 metric tons. That is a real plus. However, without the aggregation, the meat import agricultural quota aggregation—by 1995, the GATT would have required the European Union to open its market to 355,000 metric tons of pork imports.

So the aggregation of the meat import quotas—I mean the meat import figures in the European Union—was a negative.

Red meat exports, just an idea of where it has been, 1993 we exported 3.1 billion dollars' worth of red meat. That is a 260-percent increase over the last 10 years. Why did that happen? First, we got access. Second, we have quality products that are known around the world, both beef and pork. Third, consumption has shifted in many parts of the world from cereal-based proteins to high quality protein.

Several organizations who study worldwide food consumption say that when people get to \$3,000 per capita income, United States, they start to look at meat rather than looking at cereal consumption. This process would not—or this success would not have been possible without support from USDA export programs.

I do have some concerns that we see a lack of support for those export programs. The future of American agriculture and red meats is in global markets. The time is now. I think if we ease up, competition will not ease up. This GATT negotiation just says, folks, you are going to have competition. You better go at it. Our competitors will, and they won't be afraid to use subsidies.

I think things that are GATT-legal under the green box, market promotion program, foreign market development program, they are needed. Their impact is great, as I have said in the past.

The University of Northern Colorado has put together a study that found that red meat exports in 1991 created a minimum of 200,000 jobs and affected 100 different industry sectors, with exports of red meat.

In summary, the GATT details are important, but how we respond to competitive trade that may come after we implement this is of more importance than what the details are. We do ask your support for this agreement. We request that you would fully support USDA programs like MPP and the FMD that will determine really the success of the Uruguay Round.

And if I might make a comment on the concept of the Uruguay Round of the GATT. It was made on very high ideals, a very high concept that we all have to buy into, perhaps somewhat like the Ten Commandments. Who can argue against what they are after? How you implement it and how we all define how we agree with the various commandments or the various parts of this particular agreement is the proof of the pudding.

With that, I appreciate the opportunity to speak to you. We will offer to respond to any questions.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Mullins appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Mr. McGrath, we have a problem. Can you summarize your testimony in 3 minutes or would you rather wait for us to come back?

Mr. McGRATH. I think I can summarize the testimony in 3 minutes, Mr. Chairman. I will do my best.

The CHAIRMAN. Your full statement will appear in the record.

STATEMENT OF BOBBY F. McKOWN, EXECUTIVE VICE PRESIDENT, FLORIDA CITRUS MUTUAL, PRESENTED BY MATTHEW McGRATH, COUNSEL

Mr. McGRATH. Thank you very much, Mr. Chairman. My name is Matt McGrath, with Barnes, Richardson & Colburn, and I am counsel to Florida Citrus Mutual.

Florida Citrus Mutual certainly appreciates all the efforts this committee has undertaken over the years to play an important role in guiding the negotiators as they reach this historic agreement, but we know that the proof is in how the agreement is implemented, and we have a few concerns in that area.

Most important from the standpoint of citrus growers and the citrus industry is tariffs. It is an import-sensitive industry. We have a history of trade relief actions, and tariff reductions on fresh and processed citrus under the agreement will be limited to no more than 15 percent over the 6-year period. We feel that that is the maximum possible reduction that could take place, given the many variable factors that affect pricing of citrus in the marketplace.

This committee worked hard on seeing that in the final negotiation on the NAFTA, provisions were included that protected citrus from being adversely affected by price declines from a large Government-supported major supplying country right next door to the United States. That is Mexico.

The assumptions by USDA throughout have talked about the effect of the Uruguay Round tariff reductions on the citrus industry

almost in a vacuum, without taking into account the fact that the NAFTA tariff reduction is in place. We are appreciative of the fact that this committee recognizes the NAFTA reduction, and it is important that any analysis of the effect on the industry take that into account.

On other elements of the agreement, I would agree with the comments of others here today that the phytosanitary rules section will be very helpful in promoting citrus exports around the world. Tariff reductions do provide a modest benefit to the citrus industry in promoting the opening of new markets, but we have run into more problems in recent years with phytosanitary rules that have been put in effect simply to protect an industry and not being based on sound scientific principles, so we think it is important to monitor the implementation of this agreement by other countries that will be markets for the citrus in the future.

Other areas are of concern to us in this agreement.

The CHAIRMAN. Mr. McGrath, I regret to interrupt you, but the time for me to get between here and there has come. So if you would like to wait, we will return and then you can finish with your statement.

Mr. McGRATH. I appreciate that.

The CHAIRMAN. Then we will stand recessed temporarily. We will be right back.

The other members of the panel, I don't know if there are any questions, but I think that you would be free to go. If there are any questions, we would communicate it to you for an answer.

[Recess taken.]

The CHAIRMAN. We are back. Officially the committee will resume its sitting and we would ask the other panelists—Mr. Mitchell and Ms. Brookins, Ms. Ozer, and Mr. Kleckner—to accompany us at the witness table.

Mr. McGrath, you have us all to yourself.

Mr. McGRATH. Thank you very much, Mr. Chairman. I appreciate the opportunity to continue. I just had a few more points that I wanted to offer.

One of the areas of concern to the citrus industry during the negotiations had to do with the EC's proposals to rebalance a number of tariffs to take into account the change in domestic price supports, and the potential impact that would have had on cattle feed—citrus pellets—which is a major export item for the industry. The result was that in the end, the U.S. negotiators held firm to no change in that rate and it remains bound duty free. That needs to be monitored so that implementation on the European side keeps it there, but that was an important accomplishment.

The agreement also provides for phytosanitary rules and a structure and a procedure for enforcing sound phytosanitary rules. We supported that agreement. It does help the industry gain access to countries which had strict rules that were being used in a discriminatory fashion.

The agreement provides for harmonized rules of origin to be developed. We propose and submit that the United States should support the rules of origin developed for citrus under the NAFTA. We feel that those will serve best to prevent transshipment and circumvention of U.S. tariffs and U.S. tariff relief mechanisms, and

the NAFTA citrus origin rules should be supported in the process as the GATT develops those rules.

Finally, under the subsidies and antidumping agreements, the industry has used those procedures in the past. We realize that a number of subsidies will be permissible under the agreement, but one thing that this committee can do in the implementation of this is see that a mechanism is in place so that subsidies are not simply renamed and reclassified and crafted in a fashion to fall into the noncountervailable list when they truly are banned export subsidies and should be actionable under U.S. law.

I would also add my voice to the others that, since the Budget Act requires offsetting revenue and cost reductions, agriculture should not be called upon to pay more than its fair share. As we understand it, the amount of tariff reductions attributable to the agricultural sector are in the \$700 million to \$800 million range.

The cost to U.S. agriculture in reduction in programs and research benefits should not be higher than the fair share attributable to agriculture and could, in fact, result in taking from agriculture in order to pay some of the benefits that will supposedly be going to agriculture. That would be self-defeating. So we support the position of others here today.

Finally, we thank this committee for its efforts, especially efforts by Representative Lewis and Representative Thurman in working very hard on the eventual NAFTA agreement which was approved and which, as I said, is very closely related to our position on the Uruguay Round agreement. We urge you to continue your active involvement in the implementation process of the agreement.

Thank you, Mr. Chairman.

[The prepared statement of Mr. McKown as presented by Mr. McGrath appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. We apologize for interrupting you in the middle of your presentation, but we appreciate you being here and—talking about the Boston Marathon, 26 miles—we do that here in the same 2 hours.

Next, Mr. Mitchell, National Farmers Union.

STATEMENT OF LARRY MITCHELL, DIRECTOR, GOVERNMENT RELATIONS, NATIONAL FARMERS UNION

Mr. MITCHELL. Thank you, sir. I am Larry Mitchell with National Farmers Union. I am the new director of government relations, and I appreciate you holding this hearing today to listen to our assessment of what the problems are in regard to the Uruguay Round on GATT.

National Farmers Union's position on the Uruguay Round can best be summed up in the first paragraph of a special order of business adopted by our delegates last month in Fargo, North Dakota which states, "We, the delegates of the 92d annual National Farmers Union Convention dedicate ourselves and our organization to defeat the proposed Uruguay Round of GATT. We believe the proposed GATT is fundamentally flawed and it must be rejected."

What is wrong with GATT? The biggest problems facing U.S. farmers in the agreement are: One, the complete elimination of import controls such as section 22 and the Meat Import Act; two, mandated minimum import levels up to 5 percent of domestic con-

sumption on every food in this country; three, mandated reductions in some domestic farm programs; four, weakening domestic food safety laws by setting ceilings on food safety regulations, also known as harmonization; and five, reductions in Federal revenues due to reductions and removal of existing U.S. import tariffs.

The last of these seems to be the most pressing problem at this time. We all realize that the Federal budget is getting tighter every year. It must be an alphabetical thing, because it seems that agriculture always gets the cuts first and deepest. But to mandate cuts in farm program spending because of GATT is completely contrary to the administration's repeated assurances throughout the agricultural negotiations in GATT.

National Farmers Union, along with over 20 other farm and commodity organizations, last week reminded President Clinton of this fact in a letter. Signatories of this letter included a full spectrum of the agricultural community from the very politically conservative to the politically progressive. We affirmed our unity in the closing remarks of that letter when we stated we would find it very difficult to support any proposed implementing language which resulted in a disproportionate share of the cost of GATT being placed on U.S. agriculture.

What should have been in GATT? What would have made it work? Since the U.S. negotiating procedure did not include the proposal for a GAPP, a general agreement on prices and production, we have long stated that a GATT should include the following six points: Eliminate and outlaw the use of export subsidies and other export dumping practices on agricultural products; recognize the right of sovereign countries to develop their own domestic food policies using tools such as section 22; recognize the right of countries to develop and maintain domestic inventory management and/or basic food security programs under article XI of GATT; establish guidelines for establishment and maintenance of world food reserves and stocks with rules as to their release in time of scarcity; recognize the need for some developing countries to be allowed exceptions from GATT rules when the overall impact of the exemptions is to spur economic development and their greater integration into the world trading partnership; and last, seek greater harmonization in health and sanitation standards to the highest possible level while allowing countries to deviate from international standards when that country can show its own standard was put in place for legitimate health and safety reasons.

GATT must not be allowed to lower the safety standards of American food.

What do we ask Congress to do at this point? We urge Congress to vote no on the GATT implementing language. We additionally ask Congress to pass legislation authorizing a section 28—pardon me, article XXVIII of GATT for the Canadian wheat and barley imports. In the meantime, we plan to pursue the administration on implementation of section 22 for the same problem.

And while I am here, I might relate another problem we ran into in GATT this last week. We were down at the Foreign Agricultural Service as our president, Lee Swenson and some of our staff are leaving for Turkey next week for the international agricultural producers meeting. We were getting some background on Turkey, and

several things over there and were told that they, the Turks, just a few weeks ago, had a 25 percent devaluation in their currency and FAS was trying to figure out how we lower our prices to get back into the game since they have had that 25 percent reduction in their currency. GATT does not address that.

Thank you for your time and interest that you have invested in today's hearing and we would be glad to answer any questions.

[The prepared statement of Mr. Mitchell appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. Next, Ms. Brookins.

STATEMENT OF CAROL L. BROOKINS, PRESIDENT, WORLD PERSPECTIVES, INC.

Ms. BROOKINS. Thank you, Mr. Chairman. I am president of World Perspectives, Incorporated. I am a consultant who specializes in agriculture and trade, and I am not an agricultural economist and I don't represent any commodity interest. I am really a historian by training, and I think we have to take the Uruguay Round from this perspective.

Uruguay Round results should be assessed both in the context of what we have done to liberalize world agricultural markets and what the trading system would be like for our farmers if we had not reached this historic accord.

Mr. Chairman, a woman doesn't like to admit her age, but I was here around 20 years ago in agriculture, and I think we all remember that 20 years ago in 1974, the last trade round began which was the Tokyo Round. At that time, our starting negotiating position on agriculture contained two major proposals: Eliminating all agricultural export subsidies and converting all nontariff barriers to bound tariffs.

Just think what the trading world and American agriculture would have experienced between 1974 and 1994 if we had achieved those results.

We wouldn't have had the European Community dumping huge amounts of commodities in the world market. We wouldn't have to have funded our own major subsidy battle and we probably wouldn't have had the depth of the agricultural depression that we had in the early 1980's if we had done something about it in 1974.

So I have heard everybody complain and criticize the Uruguay Round agreement, but I would like to first of all congratulate you. You have done a very good job. It is through your support that we didn't sell out agriculture and we stayed the course and got the beginning of a major change in agricultural trade reform in place in the world marketplace.

This is more important now than ever before for a number of reasons, and I would like to briefly reiterate those now. First of all, I think it is very clear that we are under severe budget constraints in this country. Without an Uruguay Round agreement, other countries in the world who have lots of money are going to be expanding their subsidies while we would have to cut ours back. That would not put us in a very good competitive position.

Second, we have to remember that over the past 20 years, the Soviet Union and China took virtually 40 percent of our grains in any given year. They were our marketplace. Well, the Soviet

Union, and I hardly need tell you this, is no longer, and in fact some of the states of the former Soviet Union may in fact become exporters in a matter of years. So we better be opening markets and getting opportunities to expand our trade or else American agriculture will fall deep into a hole and won't be able to recover.

The states of the former Soviet Union and China will become GATT members or members in the new World Trade Organization, which will be the successor to the GATT and they don't any longer have monopoly buyers or sellers controlling their trade. So this is going to give us a chance, with all the privatized companies and businesses that are growing, to even do more business in those countries.

The European Union has grown from 1974 and now it is going to have four more countries in another year and it has promised free-trade agreements to most of North Africa and East Europe. Without the Uruguay Round provisions in agriculture, we would find ourselves dealing with a formidable obstacle to trade all through the world and huge subsidy dumping in even more countries around the world from Europe.

Now, in conclusion, trade liberalization is not an event but a long and continuous process, and I think this new trade agreement is the starting point for implementing business practices and Government regulations that are going to put us in a much improved competitive position.

We now have tools under strengthened GATT rules and dispute settlement procedures to effectively challenge unfair trade practices in other countries, and this is giving our farmers another benefit in ensuring that trade in world markets is both fair and open.

I do have some recommendations that I would be happy to share with you that are in my testimony of what we can do with our own farm policy to make us even more competitive.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Brookins appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. We appreciate your testimony.

Next, Ms. Ozer, Family Farm Coalition.

STATEMENT OF KATHERINE OZER, DIRECTOR, NATIONAL FAMILY FARM COALITION

Ms. OZER. Thank you, Mr. Chairman. I am pleased to be here today to present some of our concerns about the implications of this GATT agreement on the future family farmers and rural communities.

We are very concerned about both what is specified in the GATT and what will be the expectation of this committee to change existing policies to make them either GATT legal, GATT acceptable, or GATT compatible, whether it is through the farm bill, the budget reconciliation or GATT implementing legislation.

I did hear quite a few comments made about the hope of what this implementing legislation can, in fact, do. And one of my concerns is the sense that there are many provisions in the GATT that are not going to be changed by implementing legislation and, in fact, the concern about whether this GATT will in fact override

some of the deals that were made on the NAFTA, I think, is a very real concern that needs—or a very real issue that needs to be addressed.

Family farmers are impacted by a range of issues, the actual constraints in our existing farm programs, the range of options to change policy which could be blocked because of the sense that they would not work under the GATT or the WTO, and the impact of consumer confidence on the safety of our food supply.

What will it mean that the CODEX standards are lower than many of our standards and the GATT doesn't require countries with standards lower to raise them to a minimum standard? As predictions as to the budgetary costs of GATT range from \$17 billion to \$40 billion based on whether you project it over 5 years or 10 years, raises the very real concern about what programs will be further cut to make up the GATT shortfall or the budgetary deficit increases.

Can loan rates on wheat and feed grains be increased to make up some of the shortfall? Can we establish formulas to insure that U.S. producers of dairy products receive a price that more closely meets their cost of production and meets domestic and international demand without creating an export dumping program or a program that farmers in this country are financing to basically move that product internationally without the increases in profits that they need domestically?

Can we create and maintain a commodity reserve program that maintains our consumers against natural disasters?

As I was writing this testimony as opposed to dealing with the specific details of each issue, there seemed to be a lot of questions that came up, and at the core of those questions really relates to the economic projections that have asserted in forecasts that increasing exports absolutely means increasing jobs and increased income.

We question whether that research really has been reflected in recent history. Having increased exports means increased farming income. Where will these new jobs that are promised actually be? Will they be in our rural communities and will they be available for farmers whose jobs and income currently will be displaced by the increase to 5 percent because of certain commodities mandated by GATT through the elimination of section 22 provisions.

Unfortunately—we feel this has been unfortunate—there has been an increasing dependence on off farm jobs as farm income has continued to drop. Has USDA analyzed the impact of the loss of jobs in other sectors, whether textile industries in the Southeast or other industries that currently employ farmers or members of the farm family—of their family that will be dislocated by NAFTA and GATT on the availability of these actual jobs in our communities? Unfortunately, if these jobs disappear, the ability of many family farmers to stay on their farms will also be in further jeopardy.

A concern that has been raised a lot during the NAFTA discussion and now with GATT is the whole ability of States to protect laws that they have enacted to protect their natural resources or to have an impact on the types of businesses or contracts that can be engaged in by the State. Will, "anticorporate" or "family-farm"

laws that deal with land use issues be in jeopardy since they imply a direct value on insuring a certain type of business?

What is the impact of current State environmental laws which exceed the U.S. minimum or have been enacted to protect or promote support for products produced within that State? Does this mean the possibility of labels like "Minnesota Grown" or "Made in Virginia" to encourage local marketing development and trade will be jeopardized in the move to expand their international markets?

Is there a threat that organic labeling or an rBGH-free label could be considered trade distorting since it places a value on information that a consumer wants to know about how that specific product has been produced? Worse yet, how will the local, State or the U.S. Government be able to respond to a claim that practices GATT or WTO-illegal?

Will we, as representatives of family farmers or concerned consumers, be able to write or petition the WTO as we currently can with the Food and Drug Administration? Will Members of Congress be able to make their voices heard in terms of the level of access to the decisions and decisionmakers in the WTO and the international process?

We need domestic programs, and international trade is an agreement that enables farmers in this country to make a decent living. We urge you to investigate these issues as to how they impact your constituents and consumers of food, not just the commodity groups or the exporters of that actual product.

As an organization representing family farmers, we are very concerned about the ripple impacts of exporting many of our policies that have not worked for family farmers in rural communities to the rest of the world. We support trade as long as those producing the products to be traded share in the profits and actually see some increases in their farm income.

There are many questions that I have raised. We urge this committee to be questioning of the implications of the GATT agreement on the various issues under your jurisdiction. Both the GATT implementing legislation and the upcoming farm bill are very critical to the future for family farmers in this country and for restoring economic profitability to our rural communities.

We urge you not to rush into this process and to ask the hard questions, to find out what is really meant by the implementing legislation, because certainly the way we understand the GATT is an agreement, we don't see that that implementing legislation can fix what, as Larry mentioned, we feel is very much a flawed agreement.

Thank you for the opportunity to present our concerns.

[The prepared statement of Ms. Ozer appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

The final witness, Mr. Kleckner, American Farm Bureau Federation. We welcome you, sir.

STATEMENT OF DEAN R. KLECKNER, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. KLECKNER. Thank you, Mr. Chairman. My plane was late. I wasn't in the field planting corn. I probably could be if I were back in Iowa because there is a lot of corn going in.

The CHAIRMAN. Welcome to the club.

Mr. KLECKNER. I recognize that, Mr. Roberts, you are also from Kansas. I am Dean Kleckner, president of the American Farm Bureau, and I am a corn, soybean, and hog farmer in northern Iowa, and we do represent producers of all commodities produced in this country, all 300-plus commodities.

I am going to keep my remarks very brief in the interest of time. You have the full statement for the record. We had discussion of this issue at our board meeting last month in mid-March and we decided that we would support the Uruguay Round agreement that was reached last December, but that at the same time, our board said we would oppose any attempt to use the implementing legislation to make additional cuts in domestic or export programs in agriculture. That is certainly being talked about.

Throughout the 7 years of negotiations—and I was down when all this started in September 1986—the Farm Bureau has been strongly supportive of the basic concept embodied in our negotiating position, in the U.S. negotiating position, that called for substantial and progressive worldwide reductions in trade distorting subsidies. Our position has been that reductions in U.S. programs and trade measures would have to be accompanied by equivalent commitments by other countries.

Mr. Chairman, if the implementing bill contains program funding reductions beyond those required by the agreement, foreign countries would not be undertaking equivalent commitments as we require in our policy.

Our farmers have been assured repeatedly over the past 2 years that 20 percent cuts in internal supports are called for in the Uruguay Round have already been accomplished by the United States as a result of our farm bills and the budget reconciliations. If even more cuts in domestic programs are imposed upon United States agriculture and under the implementing legislation, the percentage reduction for the United States would add up to much more than the 20 percent other countries are making.

Does anybody really think that the European Union will acknowledge the sacrifice our farmers would then be making and unilaterally reduce their farm expenditures too? I don't think anybody believes that.

If the implementing bill does contain additional farm programs reductions to pay—quote, unquote, to pay for the Uruguay Round, few in agriculture will be able to support the bill.

With respect to the agreement itself, our principal goals for agricultural trade reform, that is the Farm Bureau's goals to achieve a substantial cutback in the use of export subsidies, to obtain a significant opening of foreign markets have at least been partially achieved in the Uruguay Round agreement. Although the agreement fell short of our original objectives in a number of areas, it has achieved a number of firsts.

I am going to rattle about four or five of those off really quickly because we think they are significant.

For the first time, agriculture was not dropped from negotiation at the last minute to get better deals in other areas. I think it has been done every other GATT round. For the first time, agriculture trade will be governed by general GATT principles, not by a series of special exceptions.

For the first time, also, export subsidies will be limited in both volume and budgetary terms. For the first time, import protection for agricultural products will be imposed through tariffs rather than through more restrictive quotas and other nontariff barriers.

For the first time, a code of conduct will exist to help to prevent the use of health and sanitary regulations from being used as unjustifiable trade barriers. And for the first time, this may be the most unbelievable, Japan and Korea will allow access to their markets for United States' rice.

Mr. Chairman, Farm Bureau recognizes that this agreement represents the net result of over 7 years of frustrating and often fruitless talks between countries with widely different and strongly held positions on agricultural trade.

Mr. Chairman, I saw you a number of times in Geneva when I was over there. You were involved in the GATT right up to your ears, that whole time. We recognize also that it probably represents an important breakthrough for the world trading system. I think our negotiators are to be commended for their efforts to find a solution to the many trade problems in this agricultural sector.

Assuming that the implementing bill does not require the agreement to be paid for on the backs of American farmers, Farm Bureau will support the package. In our full statement, we indicate a number of other specific areas of gains and losses.

I would like to associate Farm Bureau with a number of organizations that have urged that the implementing bill recapture funds required to be cut from such programs as the EEP for use in green box programs, like foreign market development. We really need to compete and stay in competition in that area.

Mr. Chairman, I also want to commend you for holding this hearing and for allowing us to present our views.

Thank you very much.

[The prepared statement of Mr. Kleckner appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. And I appreciate all of you being here and your testimony will be very helpful to us.

Mr. Roberts.

Mr. ROBERTS. Yes, too, I want to thank all the witnesses, Mr. Chairman, and again, reiterate my thanks to you for holding this hearing.

I would like to agree with Carol, that this is not a short story but a novel and I hope it has a successful conclusion. I think it is an ongoing continuum, if that is the way to phrase it, and, Dean, thank you for your comments. I know you had about five "for the first times" in there. Great price, in my vintage, in the country western field, since for the good times and I am doing it for the first time, but I hope there are some good times.

And, Mr. Chairman, I would just like to again indicate my concern in regards to the pay-go requirements. We are talking about \$1.6 billion in the GATT mandated reductions to the export enhancement program. Mr. Kleckner indicated we would sure like to use that for export promotion but if, in fact, those are the savings we have to accomplish, that will not be possible.

We all hope that our deficiencies will result from increased prices. After all, that is the goal of GATT. That is somewhere between \$1 billion and \$2 billion, but the fishhook in this thing is the increase in flex acres by 7.5 percent to represent a \$3.5 billion savings. That is about a 50-percent increase in unpaid acres from the current 15 percent up to 22.5.

But stop and think about this. That number could increase since the rising prices would mean less deficiency payment dollars in each acre, and so my guesstimate or prediction would be that that would go up to about 25 percent in terms of flex acres.

Now, we talked about that when we were going through the Death Valley days of the variance considerations and everybody scratched their head. Take it one step further if you might.

One of the benefits of your flex acre situation is we have a fledgling oilseed industry now, more especially in my district where we have been monoagriculture and we want to become more diversified. Without the targeted export enhancement program in regards to SOAP, COAP, EEP, et cetera, I don't know how we compete with what we have allowed—or what the GATT agreement calls for in regards to the oilseed business.

So if a farmer is going to have 1 out of 4 acres out of the farm program, hopefully it will go to some other crop, yet if that crop is outsubsidized by our competitors, we have some problems here.

I do not agree that 40 percent of this is going to have to come out of agriculture. Both the chairman and I are in strong agreement with this. It is still flexible. I want to see GATT work, but we have some work to do and I thank the chairman.

The CHAIRMAN. Thank you very much, and thanks to all of you.

The committee will stand adjourned subject to the call of the Chair.

[Whereupon, at 1:25 p.m., the committee was adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

STATEMENT BY LARRY DIEDRICH
PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

before the

COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

April 20, 1994

Good morning, Mr. Chairman and Members of the Committee. I am Larry Diedrich, a soybean, corn, and hog producer from Elkton, South Dakota, and President of the American Soybean Association. ASA appreciates the opportunity to appear before you today on behalf of U.S. soybean growers.

Mr. Chairman, U.S. soybean growers have traditionally been strong supporters of international trade agreements. As efficient producers, we have believed that reciprocal steps in the direction of liberalizing world trade will contribute to our comparative advantage and increase our opportunities for growth and profitability. We would see direct benefits from opening protected world markets and from eliminating export subsidies and other trade distorting practices.

For these reasons, we welcomed President Reagan's decision in 1986 to initiate the Uruguay Round negotiations. We emphatically endorsed the U.S. goal of complete elimination of global tariffs and export subsidies. We recognized clearly that our industry has the most to gain and the least to lose from genuine trade liberalization.

Today, some seven and a half years later, the benefits the U.S. soybean industry will gain from this agreement are unclear, at best, and many members of our industry are questioning whether we can support its ratification by Congress. I cannot overstate how uncomfortable our industry, and my own Association, is to be in this position. I can tell you, however, that U.S. soybean producers have left no stone unturned in the effort to achieve a fair and balanced GATT agreement. And I can tell you that we are continuing to seek remedies that will correct the inadequacies of this agreement, even after the ink has dried.

In the interest of being as brief as possible, Mr. Chairman, I will not detail the chronology of events which have led the U.S. oilseed industry to this difficult conclusion. I will simply outline our concerns with the Uruguay Round as it affects oilseed product trade, describe our efforts to achieve a desirable result, and provide our views on how the present situation can be improved.

Unequal Treatment on Export Subsidies

In the area of export subsidies, the U.S. oilseed industry is facing unilateral disarmament under the Uruguay Round. The base period which determines the amount of permitted subsidies precedes the period during which the U.S. finally began using EEP, SOAP, and COAP on a scale sufficient to counter competitors' unfair trade practices in vegetable oil. As a result, current vegetable oil exports under these programs will be reduced 79% by the year 2000.

Our industry could adjust satisfactorily to this reduction if the Uruguay Round imposed similar reductions on other major exporters. Unfortunately, this is not the case. Long-standing oilseed processing and export subsidies employed by Argentina, Brazil, India, and Malaysia are not subject to any reduction commitment under the Uruguay Round. In addition, although EU oilseed area is constrained by the Blair House Agreement, EU oilseed subsidies are not subject to any Uruguay Round reduction commitment.

Limited New Market Access

Even with this unequal treatment, our industry could still compete with the export efforts of our competitors if the Uruguay Round opened up sufficient access to world oilseed and oilseed product markets. Unfortunately, with the exception of minor concessions on the part of Japan, Korea, and Indonesia, few countries have agreed to go beyond the minimum tariff reductions required by the agreement. While these improvements are welcome, world trade in oilseeds and oilseed products will continue to be driven by government policies, responding to non-market forces.

One area where GATT does significantly expand market access and could potentially benefit our oilseed sector is trade in livestock products. The Uruguay Round will open significant new opportunities for U.S. pork and poultry products in Europe, Japan, Korea, and other major markets. Increased exports of these products would increase domestic demand for soybean meal. While this growth would be welcome, an inevitable buildup in vegetable oil stocks will result, and ways must be found to utilize them, for true benefits to occur.

Impact on U.S. Oilseed and Livestock Sectors

The bottom line for GATT in terms of its effect on our industry is that U.S. vegetable oil supplies will build as our export programs

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are phased down and few new markets open up abroad. As a result of the more gradual rate of reduction agreed to in Blair House Two, these additional supplies from reduced exports will grow in increments of about 90,000 tons per year, beginning in 1995 and reaching 535,000 tons in the year 2000 and in every year thereafter.

The six-year phasedown of EEP, SOAP, and COAP exports allows the U.S. oilseed industry some opportunity to make a transition to new markets where these subsidies are not needed. Without new market outlets, however, this growing vegetable oil surplus will have significant effects on oilseed production and prices. Vegetable oil prices will be pushed down toward subsidized world price levels, forcing domestic crushers to reduce bids for whole seed and/or increase the price of protein meal. Oil-dependent industries such as sunflower and canola will see major reductions in acreage, and some of our crushing plants may be forced to turn to imported seed for an increasing share of their production. Over time, this process is likely to result in higher costs for U.S. livestock producers, eroding the gains won in the market access negotiations for livestock products.

U.S. Oilseed Industry Efforts

The U.S. oilseed industry has been an active participant in every phase of the GATT negotiations as they relate to our interest in eliminating export subsidies and increasing foreign market access. Well before the Round began, the National Oilseed Processors Association filed and pursued two section 301 petitions against several unfair trade practices being utilized by competing exporters of vegetable oil and oilseed meal. Unfortunately, these petitions were not resolved in a manner satisfactory to our industry.

In 1987, the American Soybean Association filed a complaint charging that the EU's oilseed regime nullified and impaired our duty-free access to its market for soybeans and soybean meal. Extensive industry efforts led to two GATT panel findings in favor of the U.S. and, ultimately, to the Blair House Agreement. While this conclusion of the case imposes a cap on EU oilseed acreage, it does not restore lost U.S. access to the EU market or prevent future overproduction and export of surplus oilseeds and oilseed products.

With the limited success of these trade proceedings in addressing the unfair export practices of our competitors, our industry made a substantial effort last year to expand global trade in oilseeds and oilseed products in the so-called zero-for-zero proposal. This initiative sought to revive the original goals of the Uruguay Round by proposing to eliminate all tariff and non-tariff barriers and all export subsidies in world trade in oilseeds and oilseed products. The effort generated considerable support, especially

among major exporting countries, but it proved to be an extremely ambitious and complex undertaking. Ultimately, the Uruguay Round negotiations ended before the initiative could be brought to fruition.

Industry Position on the Uruguay Round

As the Uruguay Round was concluding last December, Mr. Chairman, representatives of the U.S. oilseed industry met with Secretary Espy in Geneva to discuss our concerns. We made clear our purpose to find some answer to the near-certain buildup of vegetable oil surpluses in the United States that GATT will create. And we indicated our interest in being able to support the Round if such a solution could be found.

Secretary Espy was extremely forthcoming during our meetings, and we believe the Department is continuing to seek ways to address our concerns. However, as it was apparent to industry representatives in Geneva that Secretary Espy and Administration officials were under a great deal of pressure to finalize an agreement that would be seen as being beneficial to all parties involved, the leaders of our industry now believe we can only support an agreement that clearly benefits our constituents.

The inadequacies that our industry believes are present in the current agreement are made evident in a report by USDA's Economic Research Service entitled, "Effects of the Uruguay Round on U.S. Agricultural Commodities." In the oilseed sector, this report addresses only soybeans, making no mention of the adverse impact GATT will have on oil-dependent crops such as sunflowers and canola. ERS makes a point to emphasize expanded foreign markets for soybeans, soybean meal, and livestock products. On the oil side, while the report admits a build-up in supplies, it curiously suggests U.S. processors will offset lower oil prices by reducing crushing margins rather than pass them on, either in the form of lower soybean prices to producers or through higher prices for meal to customers in the livestock industry. It apparently will take a determined effort on the part of our industry working with Administration officials, to resolve these differences of opinion. But we are willing, as stated earlier, to expand whatever effort is required to come up with acceptable ways to address and resolve our concerns.

Provisions Needed in Implementing Legislation

Reflecting these views, we would take this opportunity to recommend several provisions to be included by the Administration in its implementing bill for the Uruguay Round:

First, subsidized exports of vegetable oil must be mandated at full funding levels permitted by GATT. To the extent funds are not used due to volume restrictions on exports, they should be required to

augment funding for foreign food assistance programs, specifically P.L. 480.

Second, in the event a budget waiver is not agreed to for GATT, agriculture programs should not be required to pay for more than agriculture's share of the cost of the agreement in net tariff revenue losses. We understand this cost will be somewhat less than \$700 million over the five-year budget baseline period.

Third, budget savings resulting from reduced outlays for agricultural export programs required by GATT which are not needed to offset agriculture's share of its cost, should be reserved for permitted or "green box" agriculture programs. In the case of oilseeds, savings should be used to fund commercialization of industrial products which use vegetable oil as a feedstock.

Our industry is currently reviewing options for marketing the increasing supply of vegetable oil which GATT will create in this country. Barring support for a substantial increase in vegetable oil exports under U.S. food aid programs, our best option seems to be development of a biodiesel fuel industry. Establishment of a start-up fund to "bid" vegetable oil into new industrial uses such as biodiesel holds the greatest promise for our industry over the long-term.

I do not want to conclude without reemphasizing our industry's very real interest and commitment to finding a solution to our problems with the Uruguay Round. We strongly believe this solution cannot be found without the active participation of the Administration. We ask for your help, and that of other Members of the Committee, in urging President Clinton to understand and address our concerns.

The American Soybean Association and its producer members look forward to working with your committee, Mr. Chairman, in addressing these vital issues.

Thank you very much.

TESTIMONY OF DR. WAYNE A. BOUTWELL
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
ON BEHALF OF
AGRICULTURE COALITION ON GATT
WASHINGTON, D.C.
WEDNESDAY, APRIL 20, 1994

Mr. Chairman, my name is Wayne Boutwell, and I am President of the National Council of Farmer Cooperatives. I am testifying today on behalf of an ad hoc coalition of 22 food and agricultural organizations.

Members of the coalition include the America Farm Bureau Federation, American Meat Institute, American Sheep Industry Association, American Soybean Association, the Coalition For Food Aid, the National Association of State Departments of Agriculture, National Association of Wheat Growers, National Barley Growers Association, National Cattlemen's Association, National Corn Growers Association, National Cotton Council, National Council of Farmer Cooperatives, National Farmers Union, National Grange, National Milk Producers Federation, National Pork Producers Council, National Potato Council, National Sunflower Association, National Turkey Federation, Rice Millers Association, United Fresh Fruit and Vegetable Association, and the U.S. Rice Producers Group.

As a coalition, we are very concerned over reports that the Administration has under consideration proposals which would require significant reductions in agriculture-related programs to help offset a major portion of the estimated \$14-18 billion cost of GATT.

First, it should be noted that such cost estimates are highly subjective and reflect only the estimated revenue losses resulting from required reductions in U.S. tariff levels under the GATT agreement. They do not take into account the potential for increased revenues as a result of expanded trade opportunities and additional economic activity, which translate into more jobs and a larger tax base.

Second, it would be grossly unfair to require U.S. agriculture to help offset a major share of such cost since the revenue losses resulting from reductions in agriculture-related tariffs amount to less than 5 percent of the estimated total of \$14-18 billion.

Third, it would violate the repeated assurances provided by the Administration in meetings and in testimony that the new GATT agreement would not require any further reductions in domestic income and price support programs.

Finally, it would also be contrary to the Administration's pledge that it would maintain and aggressively utilize the full range of authorities under GATT to maintain U.S. agriculture's ability to remain competitive in the international marketplace.

The Administration has estimated that the new GATT agreement may increase U.S. agriculture exports by \$1.6 to 4.7 billion by the year 2000 and its share of the world market by an additional one percent. U.S. net farm income is also projected to be nearly \$1 billion higher by the year 2000, an increase of one to two percent.

Even these modest projections, however, assumed that current programs would be maintained as allowed under GATT at current baseline levels. Based on such projections, further reductions in domestic and international programs below the current baseline could result in the new GATT agreement becoming more of a negative rather than a positive.

Since the 1980's, the international marketplace has been characterized by increasing competition, much of it heavily subsidized, and the use of unfair trading practices and artificial trade barriers. As a result, U.S. agriculture has lost market share as shown in the attached chart.

This loss in market share has cost U.S. agriculture and our national economy approximately:

- o \$10 billion in reduced exports annually;
- o \$24 billion in lost economic activity annually; and
- o Over 200,000 fewer jobs.

Whether the recently signed GATT agreement will help reverse this decline by providing expanded trade opportunities for U.S. agriculture remains to be seen. Again, the key to its success will depend on the U.S. government and its level of commitment to U.S. agriculture.

This is essential for several important reasons. First, the new GATT agreement increases competition -- both in domestic and international markets.

Within the domestic market, competition will increase as a result of the U.S. providing the rest of the world with increased market access as required under GATT. It is unilateral in effect since it is virtually certain to result in increased foreign imports.

However, there is no such certainty that U.S. agriculture will be able to take advantage of similar market openings by other countries. This is because such opportunities are multilateral in nature with the U.S. competing against every other exporting country in the world for such markets.

Second, in the context of increasing competition for such markets, it should be noted that the new GATT agreement does not eliminate export subsidies. It only reduces them.

For example, under the GATT agreement, countries are required to reduce the use of such export subsidies for each commodity by 36 percent in terms of value and 21 percent by volume by the year 2000 over the selected base period.

While this will reduce the overall level of such subsidies, it maintains any relative advantage enjoyed by other countries especially the European Union, over the U.S. on a commodity by commodity basis.

Third, the GATT agreement allows countries to maintain and even increase their support for other policies and programs which are classified as non-trade distorting or within the "green box". These include, among other programs, market development and promotion, export credit, and food assistance.

The European Union has made it clear that it will continue to utilize every available means to take advantage of any market opportunities provided under GATT to maintain and expand their share of the world market. This includes using export subsidies up to the maximum allowed, while redirecting increasing resources into so-called green box programs not subject to reduction under GATT.

Again, without a similar commitment on the part of the U.S. government, U.S. agriculture will be at a substantial disadvantage. The Administration, however, has already recommended substantial reductions in many of these programs as part of its FY 1995 budget proposal.

For example, under the Administration's budget proposal, USDA's market promotion program would be reduced 25 percent; Foreign Market Development by one third; P.L. 480 by approximately 20 percent; while both the Cottonseed Oil and Sunflower Oil Assistance Programs (COAP and SOAP), and the emergency food assistance program (TEFAP) would be virtually eliminated.

These proposed reductions are unilateral in nature, since they do not require an equivalent reduction on the part of our competitors, including the European Union and other exporting countries.

For all these reasons, we believe the following actions should be taken. First, we recommend that funding for domestic and international programs relating to agriculture be maintained and aggressively utilized as allowed under GATT.

Second, we urge that any funds relating to those programs subject to reduction under GATT (such as EEP, DEIP, COAP AND SOAP) be redirected and made available as allowed under GATT for such green box programs as market development and promotion, export

credit, and domestic and international food assistance, including P.L. 480 and TEFAP. These recommendations were also outlined in recent letters to the President. (See attached).

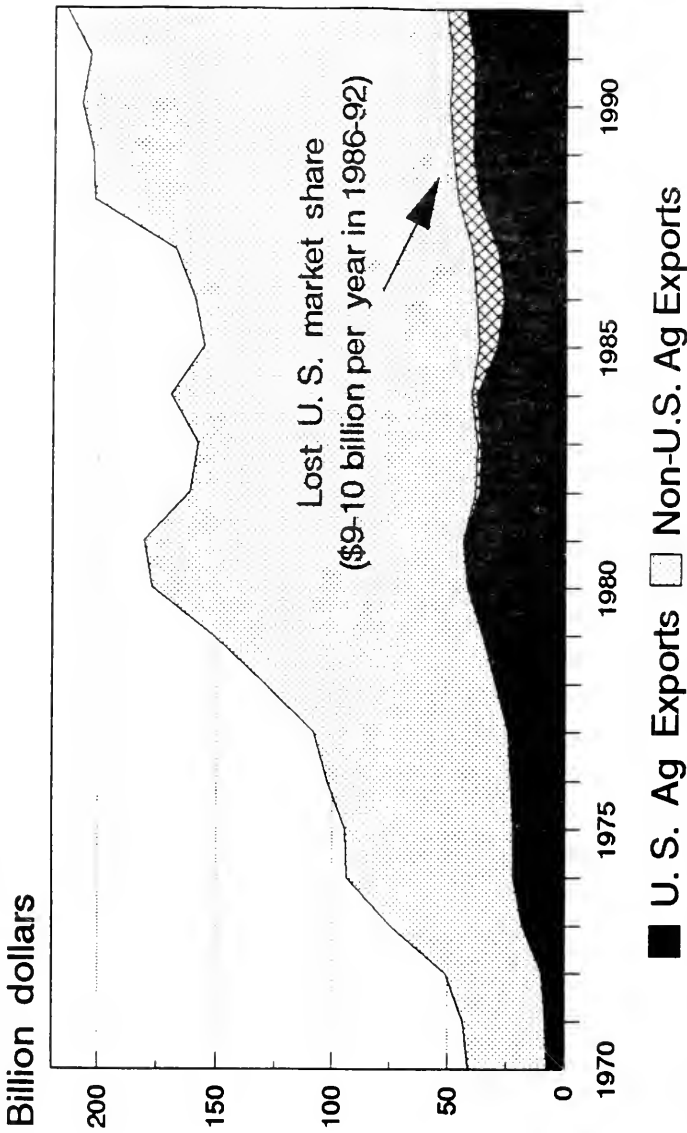
Without such action, it is hard to envision how U.S. agriculture in the aggregate stands to gain as a result of the new GATT agreement. Not only would the nation's farmers and ranchers be adversely affected, but so would many of the nearly one million Americans whose jobs are directly dependent on agriculture-related exports.

Accordingly, Mr. Chairman, we would find it very difficult to support any implementing legislation which resulted in a disproportionate share of the cost of GATT being imposed on U.S. agriculture, or in its being unable to remain viable and competitive in the international marketplace.

This concludes our statement, Mr. Chairman. We appreciate very much this opportunity to testify and your continued strong leadership on behalf of American agriculture.

(Attachment follows:)

World Agricultural Exports



Agriculture Coalition on GATT

The coalition includes the following organizations:

American Farm Bureau Federation
American Meat Institute
American Sheep Industry Association
American Soybean Association
Coalition for Food Aid
National Association of State Departments of Agriculture
National Association of Wheat Growers
National Barley Growers Association
National Cattlemen's Association
National Corn Growers Association
National Cotton Council
National Council of Farmer Cooperatives
National Farmers Union
National Grange
National Milk Producers Federation
National Pork Producers Council
National Potato Council
National Sunflower Association
National Turkey Federation
Rice Millers Association
United Fresh Fruit and Vegetable Association
U.S. Rice Producers Group

Testimony of Bruce Brumfield
President, National Cotton Council of America
before the Agriculture Committee of the House of Representatives

Position of U.S. Cotton Industry Concerning GATT Implementing Legislation
April 20, 1994

Mr. Chairman, members of the Committee. I want to thank you for the opportunity to testify before you today. My name is Bruce Brumfield. I operate a diversified farming operation in Inverness, Mississippi. I am before you today in my capacity as President of the National Cotton Council of America to discuss the Uruguay Round Trade Agreement.

The National Cotton Council is the central organization of the United States cotton industry. Its members include producers, ginner, oilseed crushers, merchants, cooperatives, warehousemen, and textile manufacturers. While a majority of the industry is concentrated in 17 cotton producing states, stretching from the Carolinas to California, the downstream manufacturers of cotton apparel and homefurnishings are located in virtually every state.

The industry and its suppliers, together with the cotton product manufacturers, account for one job of every thirteen in the U.S. Annual cotton production is valued at more than \$5 billion at the farm gate. In addition to the fiber, cottonseed products are used for livestock feed, and cottonseed oil is used for food products ranging from margarine to salad dressing. While cotton's farm gate value is significant, a more meaningful measure of cotton's value to the U.S. economy is its retail value. Taken collectively, the business revenue generated by cotton and its products in the U.S. economy is estimated to be in excess of \$50 billion annually. Cotton stands above all other crop in its creation of jobs and its contribution to the U.S. economy.

As with all of U.S. agriculture, the cotton industry followed the GATT negotiations from the start. From the very beginning, U.S. cotton has viewed the GATT negotiations defensively. The risk of increased subsidized competition presented by GATT did not seem to be offset by any potential market gains for cotton. In many respects, this final agreement does not alter our initial view. For cotton, the amount of market protection given up is not counterbalanced with increased trade opportunities. However, in the final stages of these negotiations, Secretary of Agriculture Espy and others were willing and able to lessen the downside risk to U.S. raw cotton. The result is an agreement that presents far less of a potential for disaster for cotton than proposals issued as recently as 1991.

The greatest concern for cotton is the perception among some in government that this agreement eliminates the need to continue to fund U.S. agricultural programs. Already, the President's most recent budget proposal calls for eliminating the Cottonseed Oil Export Assistance Program. We have heard reports that agriculture may be asked to shoulder up to \$5 billion of the cost of the GATT. And there are concerns that the Administration may not forcefully use all the export assistance authorities available to combat subsidized competition.

Mr. Chairman, this GATT agreement does not end agricultural subsidization. As a matter of fact, our assessment of its terms suggests that it will do very little to alter the cotton policies of foreign governments.

It will liberalize trade and does contain some controls on subsidization, but it is not a cure-all and the international playing field will not be level, even if all countries adhere to their commitments. For example, the European Community will still be permitted to subsidize at a much higher level than the U.S. after this agreement is in place. There are unfair trade practices that are not directly covered by this text. Countries will continue to use whatever means they can to gain unfair advantages in one agricultural sector or another in world trade.

In fact, U.S. cotton's primary international competitors are developing countries. These countries benefit from either less stringent requirements under the GATT or outright exemptions from some of its provisions. Many of their subsidy programs are not even touched by GATT 1994.

So my primary message is simply that GATT in no way diminishes the need for an effective cotton program. Rather, the post-GATT cotton and textile trade environment will make an effective cotton program even more important. Very little will truly change in the international agricultural marketplace. But U.S. cotton's best customer, the domestic textile industry, is going to be highly vulnerable under the new GATT. That is a major reason why the U.S. cotton producer will, more than ever, need an effective program.

As long as the marketing loan is allowed to continue to work, as long as the U.S. has the vision to form a partnership with private enterprise in developing international markets and as long as the U.S. government uses its authority to help U.S. producers compete against subsidized competition, the U.S. cotton industry has the chance to remain viable under the new GATT regime.

Summary – Immediate Impact on U.S. Cotton

Mr. Chairman, I will summarize the key effects of the GATT on U.S. cotton and our recommendations for implementing legislation. I must point out that as President of the National Cotton Council I carry the concerns not only of cotton farmers, but also of ginners, cottonseed crushers, warehousemen, cooperatives, shippers, and textile mills.

The key immediate effects of this agreement on U.S. cotton are--

1. Section 22 Quotas.

Section 22 quotas on cotton will be eliminated and replaced with a "tariff-rate quota". 'Raw cotton imports can reach about 238,000 bales during the first year of the agreement, increasing to 397,000 bales by the 6th year of the agreement. Any cotton imports above this

amount will face a duty of 16.74 cents, which will be reduced to 14.24 cents at the end of the 6 years.

The original U.S. proposal would have replaced section 22 cotton quotas with a tariff of 17/100th of a cent per pound. In 1992, with the industry's urging, the U.S. submitted another GATT proposal increasing the over-quota tariff to 7 cents per pound. But also in 1992, and again at NCC's urging, the U.S. agreed to a tariffication number of over 16 cents per pound to be applicable under the North American Free Trade Agreement.

In late November 1993, the U.S. submission in GATT still called for a 7 cent tariff to replace the absolute quota on raw cotton imports. However, responding to the industry's persistent requests, the final U.S. submission, made in Geneva, increased the tariff to the NAFTA level of over 16 cents per pound--a level we consider to be equitable.

GATT Agreement on Section 22 Cotton Quota		
Year	<i>Bales</i>	<i>Tariff (cents per lb.)</i>
	Quota Amount	Above Quota Tariff
1993	125,357 (upland & ELS)	Not applicable
1995	237,980	16.74
1996	269,711	16.24
1997	301,442	15.74
1998	333,173	15.24
1999	364,904	14.74
2000	396,634	14.24
2001	396,634	14.24
2002	396,634	14.24

2. Reductions in Internal Support

The GATT agreement does not require any modification in the domestic components of the U.S. cotton program. Overall domestic support levels for cotton will not have to be further reduced in order to comply with the terms of the agreement.

Because all commodities are considered together, because U.S. cotton target prices have been reduced since 1985, because the U.S. cotton program has been reduced under budget acts, and because the agreement does not consider deficiency payments made under a triple base program to be trade-distortive, the internal support component of the GATT agreement does

not constrain the U.S. cotton program. The calculated aggregate measurement of support for U.S. cotton is well below the allowable GATT ceiling.

It is important to note that the cotton programs of our foreign competitors will also not have to be reduced, according to our analysis. In fact, many of these countries are exempt from full application of the agreement because of their status as a developing country.

3. Direct Export Assistance

There will be reductions over the next 6 years in the level of export subsidies available to U.S. cottonseed oil under the Cottonseed Oil Export Assistance Program in order to carry out the terms of the agreement. Export assistance currently being made available to oilseeds (including cottonseed) will take a significant cut because the chosen base period contains little spending by the U.S. on oilseed export subsidies.

All aspects of the cotton marketing loan program are considered to be internal support mechanisms and not export subsidies.

4. Textile Issues.

The textile component of the GATT agreement is extremely important to the entire U.S. cotton industry. The recent growth in international value-added cotton trade, coupled with the decline in raw cotton trade, provide a good indication of the areas of growth for U.S. cotton. The textile component of the GATT agreement is not entirely finished. Bilateral negotiations on market access are continuing.

Under an agreement outside of the GATT, called the Multi-Fiber Arrangement, most developed countries have maintained quotas restricting the level of textile imports, the United States included. Under the GATT agreement, textile trade rules will be integrated into the GATT framework, meaning that the MFA textile quotas will be phased out over 10 years. The People's Republic of China will not benefit from this market opening until it becomes a member of the GATT.

Further, duties on textile imports into the U.S. will be reduced by an average of about 12%.

U.S. textile interests have called for two major changes to the textile GATT negotiations:

- 1) the MFA phase out must be extended to 15 years, and
- 2) competing countries such as India and Pakistan which have significant restrictions on textile imports into their country must provide effective market access for U.S. textile exports in order to get increased market access to the U.S.

Neither of these objectives has been achieved. It is sometimes difficult to accept that the U.S. agreed to phase out its textile quota system without receiving reciprocal concessions

from some of our primary textile competitors. But that is the case. India and Pakistan have so far refused to agree to allow the U.S. textile industry effective market access for U.S. textile exports. These countries insist on being allowed to compete in the U.S. market, but refuse competition in their own market. This inequitable result will damage the U.S. textile industry and could further strengthen Pakistan and India in their efforts to ship more and more textile products to the United States.

Recommendations for Implementing Legislation

Mr. Chairman, I would like to make the following recommendations concerning the GATT implementing legislation:

1. Maintain Section 22 Authority.

Although section 22 quotas must be changed in order to comply with GATT 1994, section 22 authority, itself, should not be changed and should be left on the books. Mr. Chairman, we may need section 22 one day, as my wheat friends can attest. If that day comes, I prefer the government to have as many options at its disposal as possible.

In its response to questions asked by the House Agriculture Committee, the Administration stated that import restraints themselves are the primary issue—not the authority to impose them. Further, the Administration hinted that application of section 22 import quotas with respect to non-World Trade Organization members would be legitimate.

2. Non-GATT members should not get increased market access as a result of the elimination of the section 22 quotas.

When section 22 quotas are changed, countries who are not members of the GATT should not be allowed to benefit and should not be allowed any increase in market access to the United States, beyond that allowed under the current section 22 quota. It makes no sense to provide GATT benefits to countries that have not or will not shoulder the corresponding obligations and commitments attendant to full GATT membership. In implementing the tariffication scheme for cotton, the United States should ensure that non-GATT countries are prohibited from shipping increased quantities of cotton to the United States to the detriment to GATT members.

3. Do not alter the domestic cotton program.

I see no reason to change the domestic cotton program. Mr. Chairman, we have a program that works. I compliment you and your colleagues for it. We don't want it changed. The aggregate measurement of support for U.S. cotton is well below the GATT-imposed ceiling. No changes to the domestic program are warranted.

As I stated earlier, given the increased competition U.S. cotton will face in the post-GATT world, the U.S. cotton producer, more than ever, must have an effective domestic cotton program.

4. Overlapping quota provisions.

The current cotton program provides for two different special quotas which may trigger depending upon certain supply/demand and price situations. There is a possibility that modifications in this scheme might be necessary in order for tariffication under the GATT legislation to be implemented smoothly. If this is the case, we request that the cotton industry be consulted concerning the consolidation of these different provisions.

5. Non-GATT members should not receive Uruguay Round benefits.

Mr. Chairman, this seems simple to say and agree with, but actually goes against conventional wisdom. In responding to questions asked by this Committee, the Administration has stated that tariff reductions will be made available to countries that, although not GATT members, do receive Most Favorable Nation treatment under United States law.

It is our opinion that this does not have to be the case. The ability of countries to hitch free rides on trade agreements should be stopped with this legislation. It should be possible to change the definition of Most Favored Nation treatment in U.S. law to exclude trade concessions granted as a result of the Uruguay Round. If a country desires the favorable benefits of the Uruguay Round, they should be forced to comply with its provisions.

6. Export assistance authorities should be tailored to be GATT- consistent.

Under the GATT 1994 agreement, the U.S. will have to reduce its expenditures on direct export subsidies. However, the GATT 1994 identifies several types of international market development activities that are not subject to GATT disciplines.

Agricultural trade programs should be modified as necessary to strengthen these so-called "green box" programs. Monies not spent on direct export subsidization because of the GATT, should be channeled into the "green-box" programs in order to enable U.S. agriculture to continue to meet subsidized competition in the world market. Market development programs such as the Market Promotion Program and the Foreign Market Development should be strengthened to meet tomorrow's competition. Export credit and aid programs should be maintained and refined to better adapt to a more competitive marketplace.

Mr. Chairman, the United States cannot afford to mistake a change of weapons by our competition as a peace treaty. We cannot unilaterally disarm--although we have started already. In the 1995 budget proposal, it was proposed that the Cottonseed Export Assistance

Program be eliminated entirely. The National Cotton Council is opposed to the weakening of our ability to compete internationally. Our competitors are not cutting their assistance programs unless it is absolutely required. All export assistance authorities should be maintained to the maximum extent allowed by the GATT.

7. **Only countries that agree to adhere fully to the provisions of GATT 1994 and which have significantly open and free markets should be allowed to accede to the GATT.**

We watch with a hopeful eye the continuing negotiations between the U.S. and India and Pakistan—countries that insist on wide open access to U.S. textile markets, but do not allow any U.S. competition in their own markets. And we monitor carefully the ongoing accession efforts of non-market economies. They want in on the GATT ballgame, but they do not want to change their economic structures to do so. GATT membership should go hand in hand with free market principles. We would oppose GATT membership for the People's Republic of China and other non-market economies until there are real economic reforms and until their markets are truly open to fair competition and any government programs are transparent.

Although U.S. officials who have conducted the GATT negotiations have repeatedly assured the cotton industry that China must make significant concessions in order to join the GATT, their recent response to questions posed by this Committee seem to imply otherwise. For the first time, the Administration has taken the position that the People's Republic of China was a full participant in the Uruguay Round!

If non-market economies such as the People's Republic of China are allowed to claim membership to the GATT without making significant strides in privatizing their economies and in opening their markets, the GATT and our negotiators will suffer a significant loss of credibility within the U.S. cotton industry. GATT will have no meaning if market disciplines are not joined to trade benefits. GATT would become a hollow institution.

There is no bigger competitor to the U.S. textile industry than China. China has demonstrated repeatedly that it will not necessarily adhere to its trade agreements (it has repeatedly attempted to circumvent textile quotas). Prices are "set" by the government. Free buying and selling is not the rule in such an economy. But a free market must be the rule if a country is to fit in the GATT structure and not be in a position to take advantage of those open economies that are full GATT participants.

8. **The cost of GATT implementing legislation should not be borne inequitably by U.S. agriculture.**

Reports of \$5 billion in agricultural program cuts to pay for GATT threaten to transform this debate from one concerning freer trade, to one against reductions in agricultural programs. I began my remarks by stating that with an effective domestic cotton program, our industry

may be able to compete in the liberalized GATT environment. I should not have to state the obvious--that \$5 billion in additional spending cuts imposed on agriculture could undermine our program's effectiveness and damage our ability to compete.

Such a price tag could well make the GATT too expensive for U.S. agriculture. This is particularly the case when one realizes that lost tariff revenues attributed to agricultural goods only amounts to around \$800 million. There is no rhyme or reason for shifting this cost to the U.S. agricultural community. Its impact would be significant.

This concludes my testimony. I would like to thank the members of this Committee for allowing the National Cotton Council to express its views.

GATT & AGRICULTURE HEARING

REMARKS

BY

DALTON YANCEY

WASHINGTON REPRESENTATIVE

FLORIDA SUGAR CANE LEAGUE, INC.

RIO GRANDE VALLEY SUGAR GROWERS, INC.

MEMBER, AGRICULTURAL POLICY ADVISORY COMMITTEE

ON BEHALF OF

UNITED STATES SUGAR PRODUCERS

BEFORE

THE COMMITTEE ON AGRICULTURE

UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

APRIL 20, 1994

Mr. Chairman, my name is Dalton Yancey and I am the Washington Representative of the Florida Sugar Cane League as well as the Rio Grande Valley Sugar Growers in Texas.

I am also a member of the Agricultural Policy Advisory Committee which was mandated by Congress to consult and advise U.S. trade negotiators in international trade, and it is in this capacity that I appear before you today. I am pleased to advise the Committee, my testimony today has been endorsed by all segments of the domestic sugar producing industry, including my colleagues in the sugarbeet industry.

I would like to recall for the Committee that, back nearly eight years ago when the Uruguay Round of talks was just getting started, then-President Ronald Reagan announced it was the goal of his Administration to negotiate a 100 percent reduction in all tariff and non-tariff barriers in international trade of agricultural commodities on a global basis. U.S. sugar producers were the first domestic commodity group to endorse this proposal. We did so because we knew our costs of production were (and are) below the world average. Independent economic analysts estimate the world average price of producing sugar is about 22 cents per pound, raw value. That world average is well above our 18 cent per pound loan program.

Internal Supports: The Reagan Administration's 100 percent reduction proposal, of course, didn't last long once negotiations got started. As these percentage reductions for internal supports, for instance, were ratcheted downward, we became concerned. Percentage reductions for the European Union, for instance, where sugar price supports are considerably higher than they are in the U.S., would simply exacerbate an already uneven playing field. This was partially resolved by the adoption of the so-called "aggregate measure of support" mechanism, since it was determined the broad range of commodity program reductions in the 1985 and 1990 farm bills more than satisfies the GATT-agreed upon 20 percent reduction in internal support levels from the 1986-88 base period.

I should like to point out, Mr. Chairman, domestic sugar producers contributed to this support level reduction through the sugar marketing assessment provision of the 1990 Budget Reconciliation bill, which was boosted by another ten percent in budget reconciliation legislation last year. This reduction in sugar supports to the best of our knowledge has not been included in the aggregate measure of support determination.

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Export Subsidies: This country, of course, is a net-importer of sugar. As a result we are not directly impacted by the GATT provision requiring a 21 percent quantity reduction and a 36 percent budget outlay reduction in export subsidies over the next six years - compared to a 1986-90 base period. It should be noted, however, this mandate will have little if any impact on the European Union's ability to continue to dump a huge amount of subsidized sugar on the world market. Analysts agree prices are likely to remain depressed for a good many years to come -- in large measure due to the failure of the Uruguay Round Agreement to impose real disciplines in a thinly traded dump market in which these export subsidies, unfortunately, will continue to distort the actual price of sugar in the world. We strongly believe, insofar as sugar is concerned, greater emphasis should be put on the multilateral elimination of export subsidies as a means of forcing countries to make unilateral adjustments in their domestic programs and, thus strengthening world sugar prices.

Market Access: While other commodities and other countries were settling on three percent of consumption and growing to five percent, this country's sugar producers agreed to U.S. negotiators' "binding" (i.e. guaranteeing) foreign access to our sugar market at a minimum of some 1.256 million short tons per year for the next six years. That's nearly 14 percent of current consumption in this country and only slightly more than the amount of sugar our industry, this Committee and the Congress agreed would be an appropriate level of access for our trading partners when the 1990 farm bill was written. In those years when sugar import requirements are deemed to be below this one-and-a-quarter million ton guarantee, domestic producers will bear the burden of storing our own crop. In this way, we accommodate our trading partners, particularly Caribbean and Latin American countries where sugar exports are critical to their national economies. In making this accommodation, both in the GATT and in sugar program legislation, we have potentially become residual suppliers to our own sugar market.

At the same time, our second tier tariff - that is the tariff on sugar over and above the tariff rate quota - will be reduced by 15 percent - from 17 cents per pound to less than 14.5 cents by the year 2001.

When domestic sugar producers agreed to "bind" the minimum access level for foreign sugar entering the U.S., we were assured by Administration officials sugar from Mexico would count against the 1.256 million short ton commitment and, further, that this provision would apply to other countries that may be included in an expanded NAFTA or subsequent bilateral trade agreement. Now, there seems to be some confusion in this regard and we are anxious to review the GATT implementing legislation to make sure there is no misunderstanding. Should changes be needed to help the Administration keep its promise, we respectfully request, Mr.

Yancey - page 3

Chairman, you will allow us to be heard on the matter at the appropriate time.

Problems with Canada: In the wake of what we all thought was the final Uruguay Round agreement made in Geneva last December, problems have developed with our Canadian neighbors involving wheat, peanuts, dairy, poultry and eggs, as well as sugar and sugar-containing products. I'm sure every Member of this Committee is keenly aware of this on-going dispute.

Insofar as sugar is concerned, the problem dates back to the Canada-US Free Trade Agreement and a so-called "gentlemen's agreement" that apparently never existed - at least, not in the minds of our neighbors to the North. Their fair share of sugar exports to this country, based on the historic shipping pattern formula that governs our quota program for all other trading partners, would have been less than 14,000 short tons last year. The Canadians shipped more than 35,000 tons to the US in 1993. Their exports of flavored sugar, tea mixes, gelatins and other highly sugared foods exceeded 135,000 tons in 1993 - more than 10 times the total shipments just three years ago. USDA analysts report that actual amounts of imports range from 300,000 to 400,000 tons. This is so because US Customs does not record all imports of sugar-containing products from Canada. We have carefully monitored the good faith efforts of our trade negotiators to bring some semblance of order and restraint to this situation, Mr. Chairman, because it is seriously threatening the Department of Agriculture's ability to administer our domestic sugar program - as the Congress has mandated - at no cost to the US Treasury.

These negotiations have continued here, in Toronto and last week in Marrakesh, but to no avail. We are, therefore, requesting this Committee support our request that, for sugar and sugar-containing products, the Administration simply stick with the provisions of the country list tabled at the GATT in Geneva last December.

In conclusion, Mr. Chairman, other than the reservations mentioned above, the Uruguay Round Agreement poses no particular problem for U.S. sugar producers. Unfortunately, however, the agreement will also not have much effect on the world sugar market. Sixty percent of the world's sugar is produced in developing countries whose "special and differential" treatment shields them from any significant reform of their sugar programs. In addition, countries that are not GATT members, and therefore not subject to Uruguay Round disciplines, account for about 40 percent of world sugar imports. And, as we mentioned earlier, the Uruguay Round will make very little progress against subsidized exports of sugar.

As a result, this country will still have to operate a program to insulate producers as well as consumers from the vagaries of supply and volatility of prices that characterize the world "dump" sugar market.

Yancey - page 4

And, although the sugar program remains "cost free" to U.S. taxpayers, we wish to be associated with testimony of our fellow agricultural commodity producers in expressing concern that farm and related programs may be called upon to bear an inordinate share of the burden when it comes to offsetting the on-budget cost of GATT implementation to the U.S. Treasury.

Finally, we wish to express our sincere appreciation to USDA Secretary Mike Espy, U.S. Trade Representative Mickey Kantor and their senior staff members for keeping us fully informed as these negotiations progressed, for consulting with us when it was appropriate and generally making us feel we were a part of the entire process.

The Members of this Committee and, particularly you, Mr. Chairman, have had a "hands-on" role throughout these negotiations. We found great comfort in the knowledge you were having regular and frequent consultations with the top-level trade policy makers within the Administration throughout the process. And, we were particularly cheered when you and a number of the Members of this Committee made the effort to be present during the critical, final stages of the negotiations. What's good about the GATT for U.S. agriculture is a credit to you, and we are grateful.

Kay Zeosky, Chairman
Trade Committee
Women Involved In Farm Economics

Testimony Before

The House Committee on Agriculture
1301 Longworth House Office Building
U.S. House of Representatives
Washington, D.C. 20515

April 20, 1994

Mr. Chairman, my husband and his forebears have been American dairy farmers for three generations and were dairy farmers in Poland even before that. And for the past 40 years, I've been glad to join the Zeosky family tradition.

As most American dairy farmers, we work extremely long hours, and at least one member of the family has to be on hand seven days a week, 365 days a year. Farm life is a good life and we're glad to have had an opportunity to raise our family in a rural atmosphere. Yet the financial rewards are extremely small for the amount of dedication and hard work that is required, especially when our lives are complicated by persistent changes in government regulations.

Dairy farmers are now faced with an entirely new set of government-imposed problems in the form of a GATT (General Agreement on Tariffs and Trade) treaty that was negotiated by United States trade officials who are ignorant about life on a dairy farm and ignore the intricacies of the dairy market.

The trade rules and regulations negotiated in Geneva, should they be approved by the Congress, will have a profound effect on our livelihood for years to come. And under the fast track procedure, there is very little time for farmers to really understand just what this treaty means for their future. We in WIFE (Women Involved In Farm Economics), with the help of friends in the government, have been investigating the dairy provision of GATT. Our investigation has uncovered some disturbing facts.

As you know, prices to farmers under the current milk pricing system are based largely on the use of milk for cheese, butter, and milk powder. Thus, any disruption in the domestic cheese and other dairy markets would have a very direct impact on milk prices paid to farmers.

Our analysis indicates that cheese import quotas alone will increase by 31,000 metric tons -- that is over 68 million pounds

-- as a result of approval of the Uruguay Round Agreement on GATT. Further, this 28 percent increase in the cheese import quota will be accompanied by non-cheese imports increases totaling as much as 6,100 metric tons of butteroil and 7,000 metric tons of butter.

Economic analysis provided by dairy industry experts and government sources suggests that a conservative estimate of the impact of the new GATT agreement on dairy farm income would be a decrease of 55 cents per hundredweight. In addition, 4.1 billion pounds of additional imports and lost exports will weigh heavily upon the U.S. dairy industry.

This huge new access for imports will be particularly damaging to most dairy farmers -- like my husband and me -- who depend on the manufacturing milk market for the majority of their income. Given our national dairy supply/demand situation, these new GATT imports will displace domestic milk, driving up the costs of the federal government dairy program for both taxpayers and milk producers.

We have been told by government officials that our foreign competitors, many of which are controlled by foreign government or quasi-foreign government entities, will also have the right to select their own "preferred importers" which means that a country can select one U.S. importer for all their cheese. To understand the true importance of this concession to foreign dairy interests, you must keep in mind that very often the so-called "preferred importer" is nothing more than a thinly-veiled subsidiary of the foreign government or a government-controlled exporter or manufacturer.

In addition, we were told that significant new non-cheese dairy quotas will not be country-specific and may be granted each year on a "first-come, first-served basis". This means that for an importer to be assured of entering at least a portion of the quota, he must have the cheese, butter, milk powder or other goods warehoused in the U.S. and make the customs entry on the first business day of the year.

If these assertions are correct -- and we are almost certain that they are -- it is conceivable that the U.S. dairy industry could be faced with imports of 6,100 metric tons of butteroil and 7,000 metric tons of butter arriving in the U.S. marketplace each year on January 2nd, the first business day of the year. Should such a scenario occur, these concentrated imports could severely depress our domestic markets.

If the GATT is implemented in the manner described above -- and I believe it will be -- there is an opportunity for ruthless foreign competitors to very adversely affect our domestic industry. In particular I am referring to the New Zealand Dairy

Board ("NZD") and its monopolistic practices.

Contrary to the assertions made in the disturbing new General Accounting Office ("GAO") report, Dairy Industry: Potential for and Barriers to Market Development (GAO/RCED-94-19), New Zealand does business in an anti-competitive and anti-free trade manner. In its report, the GAO holds New Zealand up as a model for the U.S. to imitate because it has developed "extensive international marketing expertise".

Stated in simple farm language, this so-called extensive international marketing expertise is nothing more than the use of monopolistic market practices. Please note that this is not just the opinion of one dairy farm wife from New York. The USDA Foreign Agriculture Service, in its March 1994 publication, Dairy: World Markets and Trade confirms my assertions.

The USDA report states that the NZDB, as a "...statutory export monopoly has the advantage of sole sourcing (and pricing) rights for New Zealand dairy products destined for export markets." The USDA report also affirms that, "While the Uruguay/GATT round by-passed the issue of marketing boards and State trading companies, the NZDB remains an unreformed and anti-competitive entity."

New Zealand will be the major beneficiary of the massive new access under GATT. New Zealand and its captive subsidiaries, such as the one in California, will be able, through predatory marketing policies, to influence dairy prices in the U.S. to the detriment of the entire domestic industry.

New Zealand already holds a significant amount of import licenses for cheese for processing. New Zealand has become notorious in the dairy industry for its hard-ball tactics and unfair methods of competition. New Zealand richly deserves the title of an "unreformed and non-competitive entity" because

- (1) It has enacted legislation described by the USDA as a statutory monopoly with the advantage of sole sourcing (and pricing) rights over New Zealand dairy products destined for export markets.

- (2) It controls all New Zealand dairy products imported into the U.S. through its alter ego, Western Dairy Products. Western, being the preferred importer, imports over 6,000 metric tons of cheese in its own name and distributes the total of all New Zealand cheese quotas.

- (3) GATT gives New Zealand/Western an additional 5,100 metric tons of cheese for processing.

How would you like to be required to rely on your principal and dominant competitor for your supply of products, the date of delivery and the price? As a result of its coercive power over US licensees it sells its cheese to the US market at prices substantially in excess of its prices to other markets.

It is believed that New Zealand, while making millions in the US market, pays little or no US income tax on its profits here by setting the fob price at artificially high prices to keep the profits in New Zealand. That's why they insist on channeling all imports first through Western Dairy and then to the US importer or user. President Clinton campaigned on a promise to make foreign companies pay their own fair share of any taxes for business they do in the U.S. and this would be a good place to start.

New Zealand can significantly increase their shipment of dairy products to the U.S. The U.S. Embassy in New Zealand has predicted that New Zealand production will be up 9 percent over last year with very little increase in its domestic consumption. New Zealand production has been increasing at a rate of 9 - 10 percent for several years. New farmers have opened up new areas to dairy farming in New Zealand.

I would hope that this Committee will lead the way in blowing the whistle on these "robber baron" tactics. It should act to block the additional grant of quota tonnage to New Zealand and refer the antitrust and tax issues to the Department of Justice and the Internal Revenue Service.

It seems odd that a new Zealand model should be applauded at a time when USDA Secretary Mike Espy is engaging the Canadian government in negotiations with the express purpose of altering the way Canada's agricultural products are imported into the U.S.

The GAO, by citing New Zealand's dairy policy as model to be emulated, shows its lack of understanding of the true scope of the NZDB's operations, and in turn, insults American dairy farmers and processors. The new GATT access levels and the predatory practices which have come to characterize NZDB operations will be devastating to domestic milk producers who are already under great financial stress.

Given all of the above, I have a series of questions which I would like to pose to the Office of the U.S. Trade Representative, which we dairy farmers have come to call "President Clinton's GATT Give-away Gang."

(1) Why does our government want to destroy a vital U.S. food-producing industry which provides essential, wholesome products to countless families every day of the year?

(2) What government training program will be created, costing U.S. taxpayers billions of dollars, to retain displaced U.S. farmers and their families?

(3) What alternatives will be available to these farmers who do not wish to leave the land upon their families have toiled for generations?

(4) And what is the true cost of marginally-cheaper milk for city dwellers?

Well, in case anyone ever had any doubts, America's farmers were its first and most dedicated environmentalists, the true stewards of the soil. Would you rather trust our farmland to farmers who depend upon it for their livelihood -- or to land developers? If farmers are forced off the land, much of it will wind up as barren as what used to be the Brazilian rain forests.

Would it not be wise to keep farmers doing what they do best -- producing food and fiber and paying their taxes -- rather than joining the welfare line? Our trade negotiators -- the Clinton GATT Give-away Gang -- may be FOB's (Friends of Bill's) but I don't think they're Friends of American Agriculture.

In closing, I respectfully request that this Committee act upon the following proposals:

- I. Stop the auctioning of cheese licenses.
- II. Licenses for additional imported cheese access, negotiated under GATT, should be distributed as follows:
 - (a) one-third to historical importers,
 - (b) one-third to preferred importers,
 - (c) one-third to new entrants to the market,
 - (d) for countries where there are no historical importers, the licenses should be split one-third to preferred importers and two-thirds to new entrants, and
 - (e) all countries have the right not to select a preferred importer.
- III. New import regulations to protect historical licensees from discrimination should be enacted (see attached draft of proposed regulations).
- IV. Due to increased access negotiated under GATT and tariffication, all cheese should be deemed import sensitive and not subject to GSP treatment. This

should particularly be true for Goya cheese.

- V. Review the variety breakdown of the 31,000 metric tons of additional cheese access and change those varieties which will have a negative impact on the U.S. market and on dairy farmer income.

Mr. Chairman, thank you for the opportunity to present my concerns and recommendations to you.

(FT)

(Attachments follow:)

GAO

United States General Accounting Office
Report to Congressional Requesters

December 1993

DAIRY INDUSTRY

Potential for and Barriers to Market Development



GAO/RCED-94-119



United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-252971

December 21, 1993

Congressional Requesters

This report responds to your request that we (1) compare and contrast the U.S. dairy industry's export activities with those of other major milk-producing nations, (2) examine opportunities to develop and expand dairy markets, and (3) identify potential obstacles that the U.S. dairy industry faces in expanding markets. This report contains matters for congressional consideration for changing federal policies that would increase marketing incentives.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days after the date of this letter. At that time, we will send copies to the appropriate House and Senate Committees and Subcommittees; interested Members of Congress; the Secretary of Agriculture; the Director, Office of Management and Budget; and other interested parties. We will make copies available to others on request.

This work was performed under the direction of John W. Harman, Director, Food and Agriculture Issues, who can be reached at (202) 512-5138 if you or your staffs have any questions. Major contributors to this report are listed in appendix IV.

A handwritten signature in dark ink, appearing to read "J. Dexter Peach".

J. Dexter Peach
Assistant Comptroller General

B-252971

List of Requesters

The Honorable E (Kika) de la Garza
Chairman
The Honorable Pat Roberts
Ranking Minority Member
Committee on Agriculture
House of Representatives

The Honorable Harold L. Volkmer
Chairman
The Honorable Steve Gunderson
Ranking Minority Member
Subcommittee on Livestock
Committee on Agriculture
House of Representatives

Executive Summary

Purpose

Since 1981, the Congress has taken a number of actions that make the dairy industry less dependent on federal financial support. As a result, the government's costs of purchases under the U.S. dairy program have been reduced from a high of about \$2.7 billion in fiscal year 1983 to about \$395 million in fiscal year 1992. In addition, the outcomes of international trade agreements may create pressures to promote freer trade, causing the dairy industry to be more responsive to market forces. In light of this changing environment, the House Committee on Agriculture and its Subcommittee on Livestock—both of which are interested in ensuring the long-term viability of the dairy industry—requested that GAO (1) compare and contrast the U.S. dairy industry's export activities with those of other major milk-producing nations, (2) examine opportunities to develop and expand markets, and (3) identify potential obstacles the industry faces in expanding markets.

Background

Federal involvement in the dairy industry began in reaction to unstable domestic market conditions and low milk prices during the Great Depression. The objectives of federal dairy policies are to support farmers' prices and ensure an adequate supply of milk and dairy products. The major program directed at achieving these objectives is the federal price support program. Under this program, the Department of Agriculture (USDA) stands ready to buy, at designated prices, bulk cheese, butter, and nonfat dry milk that are offered to it for sale. Federal outlays for these purchases depend on the extent to which milk production exceeds commercial purchases. Generally, high support prices lead to high milk production, which leads to surpluses and more government purchases, assuming a relatively stable commercial demand for dairy products.

Another outlet for excess domestic production is export markets. USDA has a number of programs and activities that can assist the industry in developing export markets. For example, the subsidized Dairy Export Incentive Program (DEIP) was established, in part, to help U.S. dairy farmers, processors, manufacturers, and exporters gain access to foreign markets, especially those in which U.S. products are competing with subsidized dairy products from the European Community (EC). DEIP, which cost about \$140 million in calendar year 1992, focuses primarily on bulk sales of cheese, butter, and dry milk. USDA's Foreign Agricultural Service, which is responsible for facilitating agricultural trade, including dairy products, has several methods and programs that are available to help industry initiatives to expand the U.S. presence in global markets. USDA's

market development resources include a network of overseas agricultural attachés and trade offices.

Results in Brief

The dairy industry is not taking full advantage of what could be an expanding international market for dairy products. Although the United States is the world's third largest producer of milk, it plays a relatively small role in most foreign dairy export markets, exporting only about 1 million out of 68 million milk-equivalent¹ metric tons of the annual domestic milk output.

~~By comparison, New Zealand, which provides little or no subsidies to its farmers, is a major player in international dairy export markets. It has developed extensive international marketing expertise and, according to USDA, exports dairy products equating to almost 4 million out of about 8 million milk-equivalent metric tons of annual milk production. In contrast, the EC exports about 7 million milk-equivalent metric tons out of an annual production of 114 million metric tons, but it has relied upon export subsidies as a major tool for penetrating world markets for bulk commodities.~~

According to industry market research studies, the U.S. dairy industry has opportunities to develop and expand markets. Exports to Mexico and Pacific Rim countries appear to offer the greatest potential for new market development and expansion because of the growing economies, current low dairy consumption levels, and changing diets and eating habits. Although these studies indicate some opportunity for expanding the domestic market for high-value dairy products, the domestic market is generally a mature market and offers only modest potential for expansion.

Industry leaders assert that two major interrelated factors have impeded the industry's ability to more effectively expand and compete in global markets. First, federal dairy policies, particularly the price support program, encourage the production of dairy products that do not always meet customers' requirements, and often the result is that U.S. market prices exceed world prices.² For example, the 1992 U.S. market price for cheese was \$1.19 per pound, while the world price was \$0.81 per pound. Second, these leaders believe the U.S. dairy industry has placed more

¹"Milk equivalent," as used in this report, is the amount of milk used in making various dairy products and is measured in terms of the total solids in milk.

²The world price for dairy products represents a simple average of the reported range of prices from major exporting countries.

emphasis on production than on marketing and has not developed a marketing mind-set that focuses on global consumers' preferences. Instead, it has adapted to the existing federal support environment, including import restrictions, and emphasized domestic commercial sales and sales to the federal government under the price support program.

Principal Findings

The U.S. Participation in Export Markets

The U.S. dairy industry ranks third in world production volume behind the 12-nation EC and the former Soviet Union. Most of the U.S. industry's marketing efforts are focused domestically; about 98 percent of the nation's annual dairy production is consumed in domestic markets. The remaining 2 percent, or about 1 million milk-equivalent metric tons, moves into world export markets in the form of butter, cheese, or dry milk, most of which are subsidized under DSEP. However, a recent University of Wisconsin study points out that market development opportunities are limited under DSEP because the dominant exporters of U.S. dairy products under the program are EC firms with U.S.-based operations and not U.S. firms.

The U.S. industry's share of many export markets is small compared with other countries' or trading blocs' share. In 1990, for example, U.S. cheese exports accounted for only about 18 percent of the Mexican cheese import market and less than 1 percent of the Japanese cheese import market. Exports of other dairy products, including ice cream, whey, and lactose, hold a better position in export markets or have shown marked increases in recent years. Collectively, export sales of whey, lactose, and related products increased from \$90.3 million in 1990 to \$248.9 million in 1992.

By contrast, the dairy industries of some countries, such as New Zealand and Australia, have developed extensive international marketing expertise and depend heavily on export markets for their sales. From 1990 to 1992, for example, dairy exports accounted for as much as 48 percent of New Zealand's dairy production and averaged 3.9 million milk-equivalent metric tons annually. The EC, whose dairy industries are highly subsidized, is also a major player in world markets and since 1990 has exported an average of about 7 million milk-equivalent metric tons, or about 6 percent of its production annually.

Opportunities to Expand Markets

According to industry market research, the greatest potential for market expansion exists in international markets where economic development has led to higher incomes and consumers' changed preferences for value-added products. For example, Pacific Rim countries, which have some of the world's fastest growing economies and populations, have been shifting their diets from traditional home-prepared foods to Western consumer-ready foods, including cheese, butter, frozen desserts, and ready-to-eat foods. Furthermore, these countries are dependent on imports to satisfy their needs for dairy products. In addition, data on per capita consumption as an indicator show that a potential exists for expanded markets for major U.S. dairy products in many countries. Industry studies also indicate that domestic markets could offer some modest growth for lowfat products and specialty cheeses.

Obstacles to Expanding Markets

Recent declines in the support price have provided some incentives for the U.S. dairy industry to be more responsive to commercial market forces and less dependent on the federal price support program. These reductions in the support price are consistent with positions taken by GAO in reports issued since 1980. However, according to many leading dairy processors and producers GAO spoke with, two interrelated factors have impeded the industry's ability to more effectively expand and compete in global markets. First, while there is some sentiment among producers for maintaining high support price levels, leaders of both industry sectors agree that the price support program results in U.S. prices that very often exceed world market prices. For example, the December 1992 U.S. market and support prices for bulk cheddar cheese were \$1.19 and \$1.11 per pound, respectively, while the estimated world market price was \$0.81 per pound. The 1992 market and support prices for butter and nonfat dry milk were similarly above the world market prices. Therefore, even if export opportunities for bulk dairy products exist, U.S. dairy processors would have little incentive to sell on the world market without export subsidies. In addition, federal policies do not encourage the production of products that are always in greatest demand or meet consumers' preferences, such as specialty cheeses.

Second, most of the industry leaders stated the need to change the mind-set of the dairy industry. Acknowledging that changing this mind-set is primarily the responsibility of the industry, they noted that the industry needs to (1) move from a production to a marketing orientation and (2) develop the expertise to expand export markets for both bulk and value-added products. These leaders said that federal policies have

influenced the industry's mind-set to center more on production than on marketing. Most indicated, however, that USDA could facilitate the industry's adjustment to a stronger marketing mind-set by working with the industry to develop appropriate strategies for changing the industry's focus from production to identifying global customers and expanding markets for dairy products.

Matters for Congressional Consideration

GAO believes that the Congress, jointly with the executive branch and the dairy industry, needs to consider initiating efforts to develop a long-range dairy policy that better recognizes the importance of dairy exports to the continued viability of the dairy industry. Steps could include conducting hearings, gathering additional information on alternatives to overcome impediments to export development, and analyzing the implications of those alternatives on the current industry structure. Furthermore, the Congress should consider directing the Secretary of Agriculture to facilitate discussions with the dairy industry to help increase its attention to exploring global markets.

Agency Comments

In commenting on a draft of this report, USDA agreed with the fundamental premise that the dairy industry will have to shift away from reliance on the federal Price Support and Milk Marketing Order programs as income-enhancing mechanisms and toward greater market orientation to ensure long-term viability. USDA particularly agrees that exports hold the greatest potential for expanding the market for U.S. dairy products. USDA's comments and GAO's evaluation of them are discussed at the end of chapter 4 and in appendix III.

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(The complete report is held in the committee files.)



United States
Department of
Agriculture

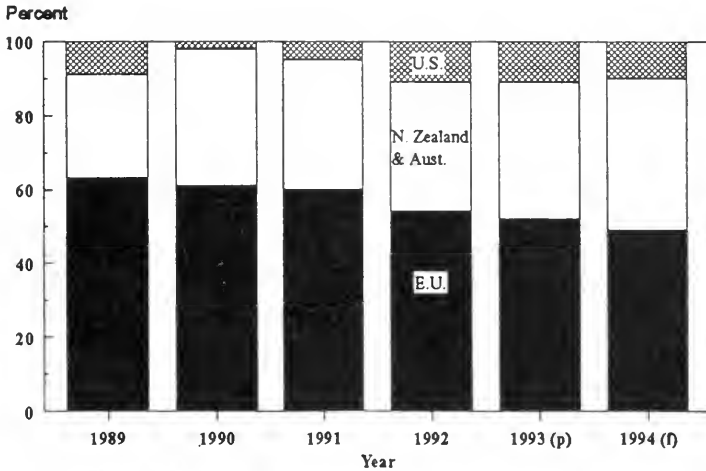
Foreign
Agricultural
Service

Circular Series
FD 1-94
March 1994

Dairy, Livestock and Poultry:

Dairy: World Markets and Trade

Share of Export Trade for Milk Powder, Butterfat,
and Cheese Among Major Suppliers *



Approved by the World Agricultural Outlook Board - USDA

DAIRY PRODUCTION IN SELECTED COUNTRIES

General Summary:

Cow milk production in selected countries for 1993 is estimated at 380.1 million tons, essentially unchanged from the 1992 level. Production is forecast to remain near that level again in 1994.

Estimates of the number of milk cows continue to decline in selected countries but higher per-cow productivity is tending to keep milk production stable. For 1993, projected production increases in India and Australia are largely offset by declines in the Ukraine and the EU. In 1994, only the United States and New Zealand have forecast increases larger than 0.5 million tons while only the Ukraine and Italy have declines of that magnitude.

Output of butter in 1993 is estimated at 5.5 million tons, unchanged from 1992. A small decline, to 5.4 million tons, is forecast for 1994. Output of cheese in 1993 is estimated at 10.7 million tons, largely unchanged from 1992. Production of approximately 10.8 million tons is forecast for 1994. Nonfat dry milk (NDM) output for 1993 is estimated at 2.9 million tons, up 5 percent from 1992. Most of the increase is expected to occur

in the EU. NDM production in 1994 is projected to decline 4 percent. Casein output is forecast at 212,000 tons in 1993, 8 percent below the 1992 level. A very small decline, to 211,000 tons, is forecast for 1994.

Milk Production

North America: Milk production in the United States in 1993 is estimated at 68.7 million tons, down slightly from last year. The number of milk cows was 1 percent below the 1992 level, but higher per-cow yields offset most of the effect of the smaller herd. U.S. milk output in 1994 is forecast to show a small increase, to 69.3 million tons as per cow yields continue to rise.

In Canada, a 2-percent increase in the quota for processing milk deliveries (MSQ) during the 1993/94 marketing year (August 1993-July 1994) has generated a degree of optimism in the dairy sector. The increase represents a reversal from the pattern of decreases that has characterized MSQ quotas since 1986. A temporary shortage of milkfat is the probable cause

of the increase in the MSQ. With the increased MSQ quota, 1994 milk production is forecast at 7.5 million tons, up 2 percent from 1993.

Mexico's 1993 milk output is estimated at 10.7 million tons, unchanged from 1992. In the tropical southern regions of the country, hurricane activity resulted in reduced milk production for an extended period. Production growth is expected to resume in 1994.

South America: Cow milk production in **Brazil** is estimated to increase only 1 percent in 1993, to 15.2 million tons. The slow growth reflects producer concerns with reduced returns stemming from an oversupply of milk. The number of milk cows is down in 1993 and is not expected to grow in 1994, again reflecting the reduced returns.

Argentina's 1994 milk output, forecast at 7.8 million tons, is up 5 percent following 6 percent growth in 1993. The rapid growth stems from strong demand growth plus the maturation of major investments in the dairy sector during the past 5 years.

In **Chile**, 1993 milk production is estimated at 1.75 million tons, up 10 percent from 1992, and an additional 3 percent increase is forecast for 1994. Chile's dairy herd is expected to continue increasing during the next 2 to 3 years as a result of increasing demand for milk and

milk products.

Venezuela's milk output for 1994 is forecast at nearly 1.7 million tons, just below the previous peak reached in 1989. The speedup in output growth indicates that dairy production in Venezuela has nearly completed its structural adjustments necessitated by the loss of cheap feed supplies caused by the restructuring of the foreign exchange system in 1989.

European Union: Forecasts for EU milk production during 1993 and 1994 are down despite some easing of the EU's quota system in 1993/94. Most of the decline in milk production is forecast to occur in Italy where production has been significantly above quota.

Output in **Germany** for 1993 is estimated at 28.2 million tons, slightly above the 1992 level. The upturn probably indicates that most of the structural adjustment needed to fully integrate the dairy sector of the eastern region with that of the rest of the country has been accomplished. During 1993, dairy cow numbers in the eastern part of Germany were down less than those in the western part and per cow milk yields in the east attained parity with those in the west.

French milk production in 1993 is estimated at 25.0 million tons, slightly below the year-earlier level. The French Government continues to offer a

"buy-out" program and small, inefficient producers are using its incentives to leave the industry. Another production decline is likely in 1994.

Milk production in Italy for 1993 is forecast at 10.8 million tons, 4 percent below the 1992 level. With Italy's downturn in production, and a significant upward adjustment in its quota, milk production is expected to be near quota for 1993/94 (April/March). Since the quota system was implemented in the mid 1980's, milk production has been significantly above quota every year. The dairy sector's debt for over-quota production is equivalent to 1.5 billion dollars.

Milk output in the Netherlands during 1993 is estimated up 1 percent, to 11.0 million tons. Milk cow numbers were down, but favorable pasture conditions stimulated an increase in per-cow milk yields. A small decline in production is likely in 1994.

Eastern Europe: Milk production in Eastern European countries is expected to decline in both 1993 and 1994. Poland's 1993 milk production is estimated down 3 percent and a 1-percent decline is forecast for 1994. Output in Romania is estimated down 6 percent in 1993 and 1 percent in 1994. Both countries are suffering from poor returns for milk sales and shortages of quality inputs, particularly feeds.

Former Soviet Union: After several years of sharp declines, preliminary information indicates 1993 milk production in Russia maintained the 1992 level while output in the Ukraine declined only 5 percent. Information from both countries indicate the dairy sector is generally characterized by short supplies of quality forages and feedgrains and by a poor economic climate.

Asia: Following several years of rapid growth, milk production in China has been hit by price and payment problems. During the past year, slower growth in demand has kept milk prices stable while feed and other input charges have continued to rise. In addition, a number of processing plants have had trouble selling dairy products, and as a result, they have had no funds to pay farmers. China's milk output for 1994 is forecast at 5.3 million tons, up 4 percent from the 1993 level which, in turn was 1 percent above 1992.

Japan's 1994 milk production is forecast to decline to 8.6 million tons, down from 8.7 million in 1993. Weak demand in 1993 due to the continuing economic recession and the long-cool summer resulted in low returns to milk producers.

Oceania: Milk production in Australia totaled 7.5 million tons in 1993 (July 1992-June 1993), up 9 percent from 1992. Victoria, the major dairy Province,

experienced another year of very favorable pasture conditions and favorable milk prices. A small production decline is forecast for 1994 as per cow yields return to more normal levels.

New Zealand's 1993 (June 1992-May 1993) milk production increased 2 percent, to a record 8.7 million tons, due to good pasture conditions and favorable prices. Output in 1994 is forecast at 9.5 million tons, up 9 percent, as prices continue to be favorable and pasture conditions remained very good during the first half of the year.

Butter Production

Butter production in selected countries for 1993 is estimated at 5.5 million tons, essentially unchanged from 1992. Production in 1994 is forecast to decline about 1 percent.

North America: Butter production in the United States during 1993 is estimated at 598,000 tons, 3 percent below the 1992 level, mainly due to the decline in milk production. A 6-percent decline is forecast for 1994 as more milk is diverted to cheese production. **Canada's** 1994 output of butter is forecast at 89,000 tons, 2 percent above 1993. More butter is being used by the domestic market. Reportedly efforts by the government and the dairy industry to increase butter use, are starting to pay off.

European Union: The EU's 1993 and 1994 output of butter are forecast at 1.6 million tons, essentially unchanged from 1992. The small declines in milk production that are being forecast are expected to be offset by reduced production of minor dairy products, leaving approximately the same quantity of milk available for butter manufacture.

Oceania: Butter production in Australia is estimated at 132,000 tons in 1993, up 18 percent. The sharp increase in milk supplies caused the large increase in butter production. Most of the output increase was exported. With little change expected in 1994 milk production, butter output in 1994 is expected to drop back to 125,000 tons. **New Zealand's** output of butter totaled 267,000 tons in 1993, and is forecast to increase to 275,000 tons in 1994. Plentiful supplies of milk for processing and favorable producer prices were the leading factors contributing to the increase.

Cheese Production

Cheese production in selected countries for 1992 is estimated at 10.7 million tons, largely unchanged from the 1992 level. Growth of about 1 percent is forecast for 1994.

North America: U.S. cheese production in 1993 is estimated at 2.9 million tons,

essentially unchanged from 1992. An increase in the 3 to 4 percent range is anticipated for 1994. Both estimates largely reflect changes in milk production for the year.

European Union: Cheese output in the EU is estimated to have expanded 1 percent in 1993. Output in 1994 is forecast to remain at the 1993 level. Record output is forecast in **France** and the **Netherlands** based on continued growth in domestic and export demand. **Germany's** production is forecast to increase 4 percent in 1993, to 814,000 tons, as consumption continues to rebound from the sharp decline that followed reunification. A production surplus in **Italy** is expected to limit cheese production in 1993 and 1994 to 885,000 and 880,000 tons, respectively.

Oceania: With increased milk supplies, cheese production is expected to grow rapidly in both countries in 1993 and 1994. Cheese production in **Australia** is estimated up 6 percent in 1993 and 3 percent in 1994. **New Zealand's** cheese production is estimated up 6 percent in 1993 and is expected to increase by a fifth in 1994.

Nonfat Dry Milk Production

Output of nonfat dry milk (NDM) in selected countries in 1993 is estimated at 2.9 million tons, up 5 percent from 1992.

A 4-percent decline is forecast for 1994. EU production is forecast to increase 4 percent in 1993 mainly due to larger output in **Germany**, the **United Kingdom**, and **Ireland**. Reduced demand for casein and full-fat dry milk generally increased the supply of milk available for making NDM. Production of NDM in **New Zealand** in 1993 is estimated at 150,000 tons, down 7 percent from 1992, because export demand was greater for whole dried milk. A small production increase is forecast for **New Zealand** in 1994 in response to the sharp increase expected in milk production.

Casein Production

Casein production in selected countries for 1993 is estimated at 212,000 tons, down 8 percent from 1992. Another small decrease is forecast for 1994. EU production is projected to decline 13 percent in 1993 with the decline spread throughout the major producers. Weak export demand has generally reduced the incentive for casein production. Forecast casein output in **New Zealand** is largely unchanged in 1993 and 1994 as weak demand offsets the impact of increased milk supplies.

A L. Coffing FAS/CMP/PECAD

DAIRY TRADE IN SELECTED COUNTRIES

General Summary:

The outlook for 1994 dairy trade in selected countries points to an increase in cheese, nonfat dry milk (NDM), and whole milk powder (WMP) trade while trade in butter is expected to decline. The growth in NDM and WMP exports is anticipated to occur primarily from Oceania where a 1993/94 "super-flush" production season boosted available export supplies. The abundant availabilities of butterfat and milk powder were contributing factors in depressing world prices in late 1993. Although the global price picture is bleak for the near future the rapid reduction in butterfat and NDM stocks suggest that world supply and utilization in major producing countries is more balanced. The realignment of internal support prices in the United States and European Union (EU) to reflect the increasing value of protein versus butterfat has played a significant role in improving the situation. Already in the United States, the reduction in butter support prices and subsequent fall in internal market prices have strongly promoted the domestic use of butter.

Cheese trade continues to display strong and consistent growth, with exports from Oceania expected to expand by 12 percent. In contrast, EU trade is forecast to grow only a modest 3 percent. On the import side the Japanese and U.S. cheese markets, which are by far the most significant, are expected to grow with most of the expansion occurring in the Japanese market.

A significant development that will affect the long-term outlook for dairy trade is the conclusion of the GATT Uruguay Round. While it is difficult to assess at this early stage the full impact of the agreement it is clear that the role of New Zealand and Australia as exporters will become more prominent. As the cover graph highlights, the percentage share of New Zealand and Australian milk powder (WMP & NDM), butter, and cheese exports among major exporters has been expanding. In 1989, it was estimated at around 28 percent. For 1994, it is forecast to reach 41 percent. In contrast, the EU's role has slipped from 63 percent in 1989 to an estimated 52 percent in 1993. For 1994, it is expected

to drop further to 49 percent. Given the terms of the GATT accord, which requires the curtailment of U.S. and EU dairy export subsidy programs starting July 1995, the resulting gap in the export market coupled with strong growth in the Pacific Rim countries will accelerate the role of New Zealand and Australia.

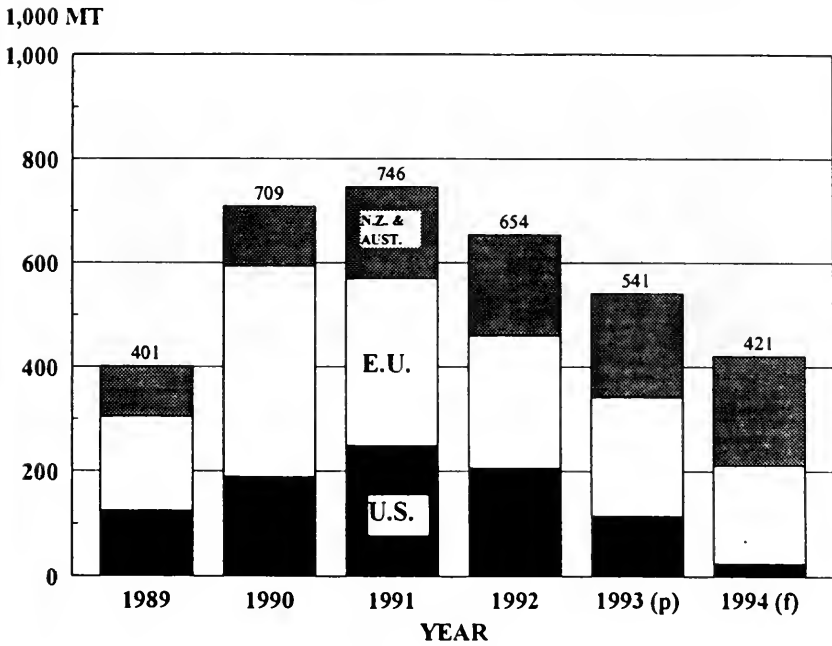
There is the possibility, albeit remote, that in a post-GATT regime global prices will increase sufficiently to allow commercial exports (i.e. non-subsidized) of currently subsidized U.S. dairy products. As recently as 1989, the United States exported substantial quantities of NDM other than food aid or subsidized export channels as a result of a sharp run-up in world prices. Given current support prices, this is more likely to apply to butter where the difference between world prices and the U.S. domestic price is narrower. A more likely scenario, however, is that CCC removals will be shifted from subsidized exports to food aid programs.

While the outlook for Oceania exporters appears bright as they assume a dominant role in world dairy trade, there is likely to be increasing scrutiny paid to their monopolistic trading Boards. This is particularly true of the New Zealand Dairy Board (NZDB) which as a statutory export monopoly has the advantage of sole sourcing (and pricing) rights for New Zealand dairy products destined for export

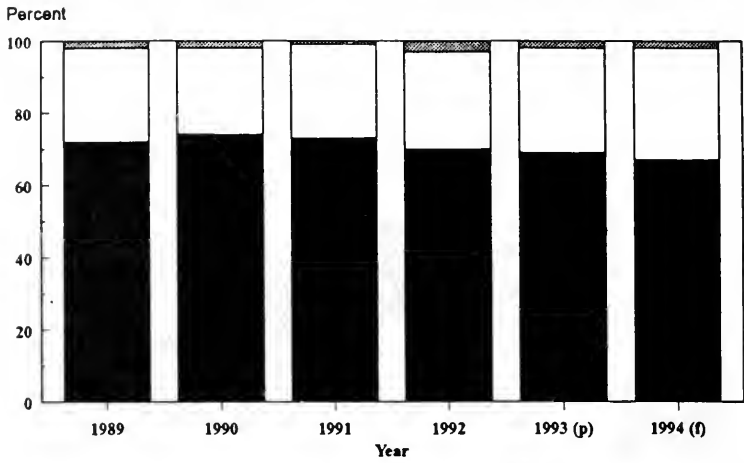
markets. The NZDB is rapidly expanding overseas and assuming the role of a multinational trading company rather than a producers marketing board. While the Uruguay/GATT round by-passed the issue of marketing boards and State trading companies, the NZDB remains an unreformed and anti-competitive entity.

In this publication, the name European Union or EU refers to the group of 12 countries formerly known as the European Community or EC.

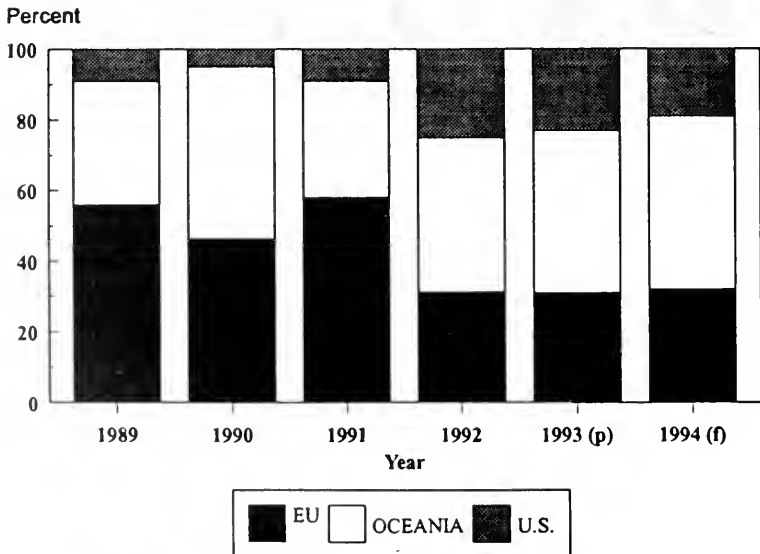
STOCKS OF BUTTER IN SELECTED COUNTRIES EXPECTED TO CONTINUE DECLINING



Share of Export Trade for Cheese Among Major Suppliers *

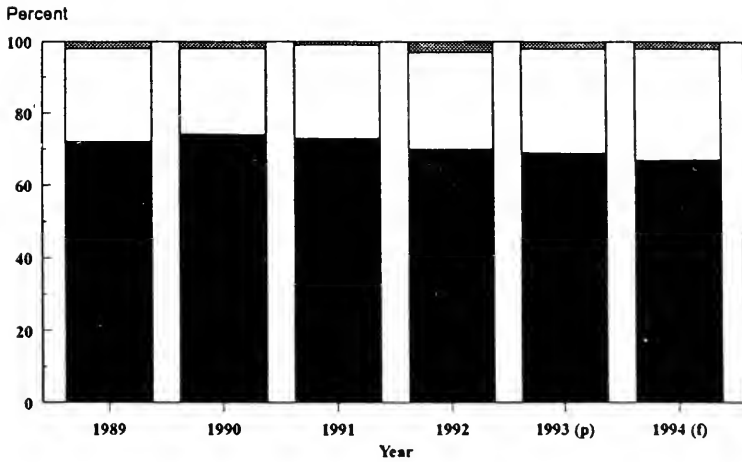


Share of Export Trade for Butter Among Major Suppliers *

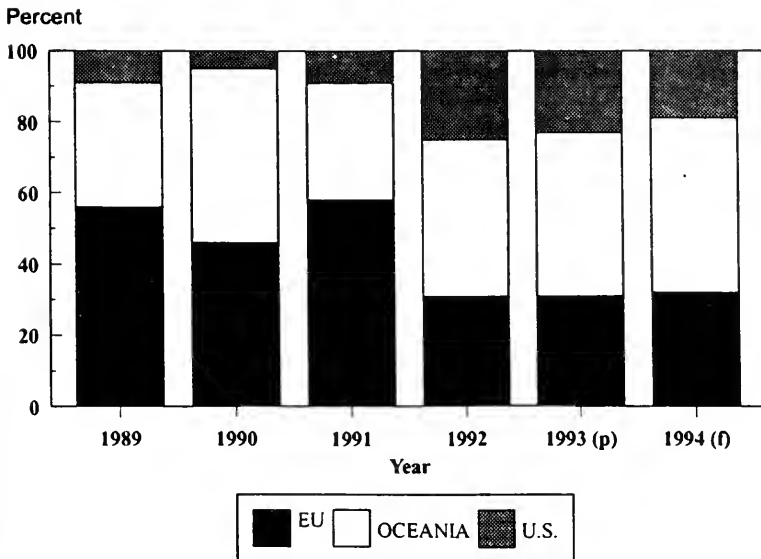


* Note: Product weight basis.

Share of Export Trade for Cheese Among Major Suppliers *



Share of Export Trade for Butter Among Major Suppliers *



* Note: Product weight basis.

(The complete report is held in the committee files.)

Changes in the Import Licensing
System for Certain Dairy Products

BY: Bryant H. Wadsworth
Carol M. Harvey
Wayne A. Seney

Dairy, Livestock and Poultry Division
Foreign Agricultural Service

Purpose

The purpose of this publication is to explain the evolution of the Licensing System for the cheese import program since its inception in 1951. The largest single change in this program came after the conclusion of the Tokyo Round of Multilateral Trade Negotiations (MTN).

Although Bryant H. Wadsworth, Carol M. Harvey and Wayne A. Seney were major contributors in the development of this report, it could not have been done without the assistance of several other people in the Dairy, Livestock and Poultry Division, including, but not limited to Phillip J. Christie, Pamela Darden, John Avey, Paula Fennell, Valerie Countiss, and Terri Lange. Questions related to this document may be directed to Bryant Wadsworth (202) 447-8031, Carol Harvey (202) 447-7217 or Phil Christie (202) 447-5270.

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Changes in the Import Licensing
System for Certain Dairy Products

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Introduction

The Trade Agreements Act of 1979 (the Act), which ratified the agreements reached by the United States and other countries in the Tokyo Round of the Multilateral Trade Negotiations, required significant changes in the administration of the import licensing system for allocation of certain dairy product quotas. The changes, implemented in Import Regulation 1 (7 CFR 6.20-6.32), were dictated in large part by Section 701 of the Act and Presidential Proclamation 4708 of December 11, 1979.

The History of Dairy Import Quotas

Import quotas were first imposed on dairy products (butter, butteroil, casein, cheese and dried skimmed milk) in August 1951 under authority of Section 104 of the Defense Production Act of 1950 (P.L. 81-774), as a part of Defense Food Order No. 3. At that time economic pressures related to the Korean conflict were causing virtually all farm prices to increase sharply. Increasing prices stimulated imports, particularly from Europe where the dairy industries were beginning to make a good recovery from the effects of World War II. Section 104 gave the Secretary of Agriculture authority to impose import controls on commodities or products which if allowed to enter freely could have had adverse effects (1) on domestic production (2) on marketings and stocks or (3) on price support programs. [When first implemented in 1951 the quotas covered all cheeses. Controls were administered through a licensing procedure which in effect allowed each importer to import in the coming year an amount not to exceed the amount imported in the previous year.]

[Eventually, certain cheeses were exempted from quota restrictions. By the time the Defense Production Act expired in the summer of 1953 the only cheeses still subject to quota were Italian-type made from cow's milk, Cheddar, Bluemold, and Edam and Gouda. Other dairy products subject to quota at that time were butter, butteroil, dried skim milk, dried whole milk, dried buttermilk, dried cream and high fat malted milk compounds.]

[Prior to the expiration of the Defense Production Act (on June 30, 1953), these same commodities were put under quota by Presidential Proclamation (No. 3019 of June 8, 1953) under authority of Section 22 of the Agricultural Adjustment Act of 1933, as amended. This was the first time Section 22 authority was employed for controlling dairy product imports.]

Under Section 22 quotas may be established only by Presidential Proclamation, and may be made permanent only after formal investigation, including a public hearing, conducted by the United States International Trade Commission (ITC). The basis provided by Section 22 for the President to proclaim a quota is his determination, after advice from the Secretary of Agriculture and based on the findings and recommendations of the ITC, that the article or articles in question are being imported or are practically certain to be imported under conditions or in quantities that will render or tend to render ineffective or materially interfere with any price support or stabilization program conducted by the U.S. Department of Agriculture related to agricultural commodities or their products.

Since 1953 several new quotas have been established on dairy products and the size of many of those established have been altered. Since cheese quotas account for the bulk of dairy products allowed to enter, and since the cheese importing business has from the beginning tended to be highly complicated, most attention, both public and private, has focused on cheese quotas.

At the time that the Tokyo Round of Multilateral Trade Negotiations (MTN) got under way in 1974 approximately half of the cheese entering the United States from abroad was subject to quota. In addition to the original quota cheeses (Bluemold, Cheddar, Edam & Gouda, and Italian-type), Swiss-type cheeses and a large variety of unspecified cheeses made from cow's milk were subject to quota if their f.o.b. price was below the "pricebreak." The pricebreak was originally established by proclamation at a fixed level and then modified to 7 cents per pound above the applicable Commodity Credit Corporation's purchase price for Grade "A" Cheddar cheese in 40 pound blocks.

The Impact of the MTN

The Tokyo Round of the MTN was the seventh of a series of such negotiations held under the auspices of the General Agreement on Tariffs and Trade (GATT) since its establishment by the free world nations after World War II.

In a broad sense, the objective of the GATT (which now includes over 80 member countries) is to expand trade among its members, primarily through the reduction of tariffs and other trade barriers. The first six rounds of negotiations, although quite successful in terms of progress towards this objective so far as industrial items were concerned, were characterized by little or no progress in the area of trade barriers related to agriculture. This caused U.S. farmer representatives, whose constituents for the past several years had obtained 20 percent or more of their income from agricultural exports, to be somewhat skeptical about the effectiveness and value of such rounds of trade negotiations. Consequently, the Congress made it clear in passing the Trade Act of 1974, authorizing the President to enter into the Tokyo Round, that substantial gains had to be made in the MTN for American agriculture.

When negotiations began, officials of the European Communities (EC), our largest trading partner in both agricultural and industrial items, made it clear that the EC would make no significant agricultural concessions unless the United States was willing to modify its dairy product import controls. This left the U.S. negotiators with a difficult dilemma: how to satisfy the EC without making concessions that would jeopardize the U.S. milk price support program.

A solution was found by dealing with the nature of the EC's trade problem. In order to avoid the imposition of countervailing duties by the United States, the EC had agreed in 1974 to eliminate export subsidies on certain cheeses and to avoid increasing them on others. The resulting impact on their sales to the United States was dramatic. As the EC and certain other European suppliers (who also were required to eliminate or curtail their subsidies) lost business, the Oceanic countries and Finland gained business.

The MTN negotiations resulted in four major changes to the quota system: (1) U.S. rights to countervail against subsidized quota imports were waived provided the import prices do not undercut U.S. prices; (2) EC access for cheese imports was restored to amounts somewhat equivalent to what the EC supplied prior to the 1974 countervailing duty agreements; (3) new quota levels were established for the Oceanic countries and Finland at levels near the amounts supplied in the late seventies, making permanent the gains from EC losses in that period; and (4) increased controls were placed on imports by eliminating the pricebreak system and by bringing under absolute quota most of the cheeses that previously entered quota-free under the pricebreak system.

The elimination of the pricebreak system brought an additional 30 to 40 percent of cheese imports under quota. As a result, some firms which had been doing no business in quota cheeses (because they had been importing "pricebreak" cheeses and miscellaneous non-quota cheeses only) are now subject to licensing requirements.

(The complete report is held in the committee files.)

CRS Report for Congress

Congressional Research Service • The Library of Congress

Auctioning Import Quotas to Cut the Budget Deficit

Alfred Reifman

Senior Fellow in International Economics

The United States imposes quotas on the importation of a number of products, increasing the price of the good in much the same way as the imposition of a tariff does. But, in contrast to a tariff, the benefits of the quota do not go to the U.S. Government. They go to producers of similar products or, in the more important cases where the quota is imposed by the foreign government, to it or to their producers.

Should the United States try to capture this "tariff" or what economists call rent, by auctioning the quotas?

ADVANTAGES

1. The Congressional Budget Office estimates that auctioning quotas might add some \$3 billion a year to the revenue of the U.S. Government. It, rather than private parties or foreign governments, would receive the economic rent. The cost to the consumer would not be affected.

2. An auction system allows the market—prices—to determine where imports come from rather than having this done via an administrative mechanism. The more efficient foreign producers would tend to gain market share.

3. An auction is "transparent," consumers and policymakers can see the cost of the import restriction.

4. An auction would reveal what level the tariff would have to be to achieve the same degree of import restriction as the quota. Thus, auctioning would make it easier to switch to a tariff system which has several advantages and which would be consistent with the requirements of the General Agreement on Tariffs and Trade (GATT).

DISADVANTAGES

1. The United States can unilaterally impose an auction system readily only on those products on which it now has American administered quotas—notably, sugar, dairy products, cotton, and peanuts. Except for sugar, the value to be captured from auctioning quotas on the imports of these products is likely to be small.

CRS-2

2. The major source of revenue from auctioning would be from auctioning quotas on textiles and apparel. They are now imposed by foreign governments under voluntary export restraint agreements (VERs). We no longer have VERs on steel; the Japanese voluntary quota on automobiles no longer bites, though it may do so in time; the VER on machine tools would not yield much revenue.

3. To be able to auction quotas on products covered by VERs, would require the United States to renegotiate the existing arrangement with foreign governments. They would object to losing the economic rents they or their producers now gain. The United States probably would have to compensate them by reducing some U.S. tariffs or, less likely, to endure retaliation.

4. More important, foreign governments could maintain their export quotas, thereby denying America the economic rents it had hoped to capture.

5. If the Uruguay Round of trade negotiations is successful, the VERs on textiles and apparel under the Multi-Fiber Agreement would be phased out.

6. A U.S.-imposed quota on textiles and apparel, or any goods now restricted by VERs, could be inconsistent with GATT and would require a waiver of GATT rules.

7. The auction system would amount to reverse foreign aid. The gains currently received by the exporting countries--many are developing countries--would accrue to the importing ones, the United States.

8. The United States could get "hooked" on an auction system if it proved to be remunerative.

TO SUM UP

Auctioning import quotas would raise U.S. revenues but only if foreign countries cooperated. It would result in a more market-oriented, efficient system and be an improvement over administrative quantitative trade controls. However, moving to such a system at this time, when a reduction and eventual elimination of quotas on textiles and apparel are being negotiated in the Uruguay Round, could set back important progress to liberalize world trade.

**A PROPOSAL TO PROHIBIT DISCRIMINATION
BY "PREFERRED IMPORTERS" OF DAIRY PRODUCTS**

Amend 7 CFR 6.30(b) to read as follows (proposed insertions underlined; proposed deletions in ~~strikeout~~):

Sec. 6.30 Adjustment of countries of origin.

* * * * *

(b)(1) Except as provided in paragraph (b)(2), in the event that it is shown to the satisfaction of the Licensing Authority that the country of origin discriminates against a licensee as to either price or availability of an article, the Licensing Authority shall not impose any penalties with respect to failure to use 85 % or more of his or her quota share during such quota year and/or the Licensing Authority shall ~~may~~ adjust the country of origin.

(2)(A) This paragraph (b)(2) shall apply in any instance when--

(i) an historical licensee is not free to purchase directly from the manufacturer or exporter of the licensee's choice in a particular country of origin because of limitations imposed by the authority of the government of the country of origin, whether exercised or enforced directly by such government or through a quasi-governmental agency, dairy board, or any other body that prevents historical licensees from purchasing the article from the vendor of their choice; and

(ii) the government, agency, board, or other body described in clause (i), or another body authorized by the government of the country of origin, or a subdivision thereof, endorses or otherwise selects a preferred importer for the import of such article.

(B) If, within 3 years of the discriminatory occurrence, it is shown to the satisfaction of the Licensing Authority that an historical licensee has been discriminated against as

1 to either price or availability of an article by a country of origin, or by a preferred
2 importer or other agent endorsed by or acting on behalf of the country of origin, the
3 Licensing Authority shall--

4 (i) not impose any penalties with respect to failure of the affected historical
5 licensee to use 85% or more of his or her quota share and shall adjust the country
6 of origin during such quota year; and

7 (ii) revoke the eligibility of the country of origin to select or endorse a
8 preferred importer for a period of not less than 3 years.

9 During such period, the quota shares made available under paragraph (b)(2)(B)(ii) of this
10 section shall be allocated to other eligible licensees in accordance with procedures
11 substantially similar to those outlined in section 6.26(c)(2).

TESTIMONY OF

**JAMES C. BARR
CHIEF EXECUTIVE OFFICER
NATIONAL MILK PRODUCERS FEDERATION**

before the

**COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES**

regarding the

**URUGUAY ROUND TRADE AGREEMENT UNDER THE
GENERAL AGREEMENT ON TARIFFS AND TRADE**

April 20, 1994

Mr. Chairman, I am James C. Barr, Chief Executive Officer of the National Milk Producers Federation. I appreciate the opportunity to present the Federation's views regarding the recently-signed international trade agreement that was negotiated during the Uruguay Round of multilateral trade talks. The members of National Milk appreciate the leadership that you and other members of the Committee have provided throughout the past seven years to ensure the interests of U.S. agriculture were represented in these negotiations.

The National Milk Producers Federation has followed the GATT negotiations very closely during this same period. Members and staff have worked closely with U.S. negotiators, both individually and through the Administration's private sector advisory committee system. We have worked with our negotiators both here and on numerous trips to Geneva or Brussels during each of the key negotiating sessions. We have also worked closely with this Committee over the past several years on the negotiations, having testified at least a half dozen times.

Our bottom line on the new GATT agreement is that it is difficult to make a case that the agreement itself is anything but a bad deal for U.S. dairy farmers and their marketing cooperatives. But it is absolutely certain that it will be a bad deal if the Administration chooses to implement the agreement the way it appears to be about to.

Specifically, we are very concerned that the Administration is willing to cut a deal in the current bilateral negotiations with Canada that will give the U.S. dairy industry very little new access to that market. Second, we are alarmed over reports that the Administration

The National Milk Producers Federation is a farm commodity organization representing most of the dairy marketing cooperatives serving this nation. NMPP members market a majority of the milk produced in the U.S. making the Federation an effective voice on national issues for dairy cooperatives and their dairy farmer members.

The Federation provides the forum through which dairy farmers and their cooperatives formulate policy on national issues that affect the production and

marketing of milk. NMPP's contribution to this policy is aimed at improving the economic well-being of dairy farmers, thus assuring this nation's consumers an adequate supply of pure, wholesome milk and dairy products.

The policies of the Federation are determined by its members from across the nation. Therefore, the policy positions expressed by NMPP are the only nationwide expression of dairy farmers and their cooperatives on national public policy.

is considering unilaterally cutting funding for the export programs, such as the Dairy Export Incentive Program and the Market Promotion Program, that are essential for the U.S. industry to be competitive in the partially liberalized world trade environment the new agreement will create. And finally, the Administration has not, to date, been supportive of the industry's attempts to meet the challenges posed by the new agreement as well as the continued pressures on our traditional support programs by creating a self-help export marketing board and an associated Class IV price pooling system.

Dairy Under the New GATT Agreement

Under the Uruguay Round GATT agreement, the U.S. will convert current Section 22 quotas to tariff-rate quotas and expand those quota quantities by a total of 30,992 metric tons by the year 2000, compared with current import quota levels. This total includes the 5,550-ton tariff-rate quota the U.S. has already given to Mexico under the North American Free Trade Agreement (NAFTA). This total is equivalent to 660 million pounds of milk, on a total solids basis, if the conversion is made using the milk equivalent factor for cheddar cheese (the quota expansion will include most varieties of cheese, not just cheddar.)

The U.S. will also convert and expand tariff-rate import quotas for a variety of non-cheese items by the year 2000 under the GATT agreement. On a milk component basis, these quota increases will amount to 17,586 metric tons of milkfat, which is equivalent to about 420 million pounds of milk, on a total solids basis, and 14,309 metric tons of milk solids not fat, equivalent to about 220 million pounds of milk, on a total solids basis. For all products, therefore, the U.S. has committed to increasing access opportunities for imports of dairy products currently under Section 22 quotas by a total of about 1.3 billion pounds, milk equivalent.

The "Section 22 waiver", which has allowed the U.S. to impose dairy import quotas under the authority of the U.S. Section 22 law since 1955 without being inconsistent with current GATT rules, is terminated by the new agreement.

Expanded market access opportunities were negotiated for a variety of dairy products in such countries as the European Union (EU), Japan, South Korea and other Pacific Rim countries. However, the U.S. dairy industry would only benefit from this new access if it can successfully compete with other countries such as New Zealand, Australia, East Europe and the European Union. Virtually all of the new market access for dairy products in other countries is on a "most favored nation basis," with none formally allocated to the U.S. only.

The new agreement will require all participants to reduce their use of subsidies to export dairy products. The U.S. will be required to cut its subsidized dairy exports roughly in half, from about 3 billion to about 1.5 billion pounds, milk equivalent of total solids, by the year 2000. During this same period, the EU will have to cut its subsidized dairy exports from a base of about 39 billion to about 30 billion pounds, milk equivalent. The EU will not cut its subsidized exports by this entire amount because it has already made reductions from its allowed base levels for certain dairy products. The fact that the agreement, when fully implemented, will still allow the EU to subsidize 30 billion pounds of milk while the U.S. will be limited to 1.5 billion pounds, speaks for itself.

The new GATT agreement also addresses the application of sanitary and phytosanitary measures, i.e., food safety and animal and plant health regulations. Specifically, the agreement recognizes the right of governments to take sanitary and phytosanitary measures but specifies that these measures should be applied only to the extent necessary to protect human, animal or plant life or health and should be based on sound science.

Implementing the New Agreement

The National Milk Producers Federation has been unequivocal in expressing dairy farmers' concerns about the Uruguay Round GATT negotiations ever since the Round was launched in 1986. During this entire period, the Administration has repeatedly assured farmers it would make no agreement that involved unilateral concessions by the U.S. with respect to agriculture. The Administration, we were assured, was dedicated to achieving a more equitable international trading environment for U.S. farm products, including dairy products, and would not bargain to achieve other objectives at the expense of U.S. agricultural interests.

Now that the agreement has been negotiated, signed and the details available for all to see, attention must shift to how the Administration can implement the agreement in a fashion that will allow the U.S. dairy industry to compensate for the concessions and take maximum advantage of the opportunities it contains. The National Milk Producers Federation is gravely concerned that the Administration is reneging on its repeated promises not to make unilateral concession in the agreement, specifically in three areas, the Canadian market access negotiations, continued use of programs allowed under the agreement and the dairy self-help program.

Canada

Under the new GATT agreement, Canada will convert its current import licensing and quota system for dairy products to tariff-rate quotas, which have the legal status of tariffs

under trade agreements. Under the North American Free Trade Agreement, Canada, Mexico and the United States no longer have the right to impose new tariffs on each other's products. Mexico and the United States have already committed to bilateral tariffication and tariff elimination on dairy products, but Canada has not done so. Over the past several months, the U.S. has been negotiating with Canada to establish a schedule for elimination of tariffs on bilateral trade in all dairy products between the U.S. and Canada. Canada has so far refused to face the reality that the GATT and NAFTA agreements, taken together, will require Canada and the U.S. to phase out all bilateral import restriction on milk and dairy products, which is the position of the National Milk Producers Federation on this issue.

USDA's negotiators support NMPF's position on gaining access to the Canadian dairy market, but other agencies of the administration reportedly are more willing to accommodate Canada in this politically-difficult issue by not pressing for any new access beyond yogurt and ice cream, for which Canada lost a GATT challenge many years ago.

Unless the current negotiations result in an agreement under which tariffs on trade in all, or most dairy products between the U.S. and Canada are scheduled for elimination over some clearly-defined time period, it will be difficult to claim that the new agreement will gain the U.S. any meaningful access to new dairy export market opportunities.

U.S. Export Assistance and Promotion Programs

The National Milk Producers Federation is concerned, as are many other U.S. agricultural commodity organizations, over options under consideration to cut funding unilaterally for export assistance, export promotion and other programs to pay a disproportionate share of the estimated cost of implementing the GATT agreement in the U.S. While some of these programs, such as the Dairy Export Incentive Program (DEIP), will be subject to reduction under the agreement, others, such as the Market Promotion Program, are not. The U.S. dairy industry already suffered under a two-and a half month hiatus in this year's DEIP program while the Administration debated the future of U.S. export assistance programs in a post-GATT environment, before the agreement was even signed!

These programs, especially the DEIP, are essential for the U.S. industry to be competitive in the only partially liberalized world trade environment the new agreement will create. Our competitors, particularly the politically-powerful EU dairy industry, can be counted on not to cut their own programs more than required by the new agreement. It will be difficult for the dairy industry to support the GATT implementing legislation if the U.S. cuts its own programs by more than absolutely necessary.

Self-Help Export Marketing Board and Class IV Price Pooling System

Finally, it is essential that authority be provided for the U.S. dairy industry to pursue coordinated export development activities through means analogous to export marketing boards utilized by other countries, including New Zealand, Australia, and Canada. Such a program is pending before this Committee's Livestock Subcommittee. The bill, H.R. 2664, would implement a national Class IV pool to establish a blend price for milk used in export dairy products and establish a Dairy Export Marketing Board to administer the Class IV pool and work to expand U.S. dairy exports and develop markets for U.S. milk and dairy products.

The National Milk Producers Federation strongly supports H.R. 2664. We consider this legislation essential if the U.S. dairy industry is to have any hope of taking advantage of the limited export opportunities the new agreement provides, particularly in the rapidly-growing Pacific Rim area. We feel the Administration's eventual position on this issue will be indicative of how supportive it is of enabling the U.S. dairy industry to benefit from the new GATT agreement.

Concluding Comment

The National Milk Producers Federation is not opposed to international trade agreements which have a chance of benefitting the industry. We demonstrated this unequivocally through our strong and committed support for the North American Free Trade Agreement. The new GATT agreement, on the other hand, is more of a problem. Without the strong support of the Administration in the areas I've discussed, it will be hard for us to support the GATT implementing legislation.

I appreciate this opportunity to present the views and concerns of the nation's dairy farmers concerning the Uruguay Round trade agreement to the Committee today. I will be happy to respond to any questions.



FARMERS UNION
Milk Marketing Cooperative

Statement of

**- Stewart G. Huber, President
Farmers Union Milk Marketing Cooperative**

**before the
U.S. House Committee on Agriculture**

Regarding

**Agricultural Provisions of the Uruguay Round
of the General Agreement on Tariffs and Trade**

**Washington, D.C.
April 20, 1994**

Mr. Chairman and members of the Committee, I am Stewart G. Huber, president of the Farmers Union Milk Marketing Cooperative. I own and operate a dairy farm in Waupaca County, Wisconsin with members of my family. On behalf of our more than 10,400 family dairy farmer members in eight Midwest states, we thank you for holding this hearing and allowing us to testify here today on this important subject.

Our members have long been concerned with the Uruguay Round ever since it was kicked off at Punta del Este in 1986. We have heard the constant drum beat of hype and claims about the benefits the new GATT will lend to our national economy. We heard claims recently that the new GATT will increase our farm exports by \$4.7 billion to \$8.7 billion by the year 2005. While this may benefit some others, the prospects are far different for dairy. We and, increasingly, others believe the U.S. dairy industry will be the real loser under the Uruguay Round. (See attachments.)

From the beginning, we were alarmed the prospect of losing Section 22, which has been the cornerstone of federal dairy policy for many decades, and other key interests vital to our domestic industry. Dairy farmers here have nothing to gain and everything to lose under a new GATT agreement. Given the chronic oversupply of milk throughout much of the world and the threat of much cheap competition, we see few significant dairy export opportunities in the future.

While details have been scarce over the years, there have been many warning signs along the way as the negotiations progressed. For example, we noted with great interest a May 2, 1991 letter in which then-U.S. Trade Representative Carla Hills told House dairy subcommittee chairman Charlie Stenholm that "Our analysis indicates that five years after implementing a U.S.-type proposal, world dairy prices would rise by 40-45 percent.

U.S. dairy production would be up about 4 percent and producer revenues would be about at 1990/91 levels." (Emphasis added.)

Milk prices had dropped to a 13-year low of around \$10 at that time and farmers were under particularly severe financial stress. Carla Hills was telling us that those dairy farmers who manage to survive five years of even lower prices under the new GATT might see milk prices recover back to \$10 under ideal conditions.

Based on what we have been able to learn so far, many of our major concerns were fully justified. Dairy farmers are the big losers under the Uruguay Round. Let me explain some of our specific concerns.

Loss of Section 22 Permanently Changes Ground Rules

The loss of Section 22 import quotas through tariffication is one of the biggest domestic dairy concerns in the Uruguay Round. Section 22 has been a cornerstone of U.S. dairy policy for decades. Section 22 has long been essential to maintaining a domestic dairy price support program because without quotas, uncontrolled imports would increase to the point where it would be impossible to maintain milk prices at the minimum support price set by Congress. Dairy program costs would skyrocket along with government purchases of displaced domestic dairy products, and producers would be exposed to unlimited assessments to cover those costs. By agreeing to tariffication, the U.S. government has fundamentally and permanently changed the basic ground rules for the entire domestic dairy industry.

Tariffication is very risky, because nobody knows what the results will be next year, five years or 10 years from now. If you flood our market with even one imported dairy product, the domestic price for all milk will be driven down.

Combine the loss of Section 22 quota with GATT minimum access rules requiring that we increase dairy imports by 50% by year one and 250% by year six, and you've got a recipe for disaster.

The Export Opportunities Are Not There

Major flaws in the agreement, including continuing high European export subsidies, reductions in the DEIP and advantages given to cheap foreign competition like New Zealand and Argentina, mean American dairy farmers will not have the export opportunities which GATT proponents have claimed.

Even though American dairy farmers are among the most efficient in the world, flaws in the Uruguay Round mean we will still face cutthroat competition in the world market from lower-cost producers. According to the National Dairy Board's "Dairy Market Report" of May/June 1993, world market prices averaged \$6.62/cwt, with Uruguay at \$4.54, Argentina at \$4.94, New Zealand at \$5.44 and Poland at \$6.26, compared to the U.S. cost of \$12.25. (See attached chart.)

Additionally, the world's largest producing area, the former Soviet Union, and Eastern Europe are outside of the GATT, and are said to be planning major dairy exports to raise much-needed hard currency. These facts virtually guarantee that world market prices would remain far below even our low domestic prices for years to come.

The Foreign Agriculture Service states in a March 1994 report titled *Dairy: World Markets and Trade*, "There is the possibility, *albeit remote*, that in a post-GATT regime global prices will increase sufficiently to allow commercial exports (i.e. non-subsidized) of currently subsidized U.S. dairy products." (Emphasis added.)

There has been much concern raised recently about the struggle for access to the Canadian dairy market under GATT. We raised the Canadian issue during last year's NAFTA debate, when it should have been resolved, but unfortunately others were less concerned at that time. Now Canada refuses to budge, and we can only hope it works out. Even if Canada does give us access to its dairy market, there are other, more serious concerns that must be addressed before this agreement is right for dairy farmers.

Minimum Import Access Is Excessive and Needs Adjustment

The Uruguay Round requires 3% minimum import access at the start of year one in 1995, expanding to 5% by the start of year six. Since imports have historically totaled about 2% of our market under Section 22, this will mean an immediate increase of about 50%, expanding to 250% in year six. Specific requirements for cheese and non-cheese minimum access are shown in the attached table. These figures have been verified by USDA.

The GATT minimum import access for dairy is much higher than could have reasonably been expected. While our government argues that it had no choice in accepting the GATT minimum import access requirements, we believe our trade negotiators could have found a much less disruptive way to implement the rules by allocating the increases to less sensitive dairy products. Congress should insist on recalculation of the U.S. minimum access implementation to minimize the impact.

USDA's *Dairy Market News* publication last week reported that cheese importers in this country were not satisfied with the specifics of the new minimum access provisions for cheese which the U.S. reached with the Europeans. As we understand it, the importers lobbied the European Union, whose negotiators went back to Geneva and got the U.S. to change some of the access for industrial cheeses to higher value table cheeses.

This makes the point that the specific details of the Uruguay Round agreement may not be chiseled in stone as some have claimed and can be changed if enough pressure is brought to bear at the right places. Our members want to know why our negotiators haven't gone back to the table to push for improvements which will make this agreement less harmful to our industry. We think the Committee could provide some very valuable assistance in getting this job done.

Additionally, if the new access is allowed entry on a "first come, first served" basis, the U.S. dairy industry could be faced with imports of 7,000 MT of butter and 6,100 MT of butteroil arriving each year on January 2nd, the first business day of the year. Such concentrated imports could severely depress our domestic market. Congress should insist on adequate safeguards to ensure the new imports are distributed evenly over the course of the year to minimize their impact.

Export Subsidy Reductions are Uneven and Unfair

Sources indicate that the new GATT allows the European Union to continue subsidizing much larger amounts of dairy exports than the U.S. allowed to. In a recent radio interview back in Wisconsin, Third District Congressman Steve Gunderson questioned why the Europeans are allowed to maintain export subsidies on more than 100 times as much cheese (305,000 MT vs. 3,000 MT), 17 ½ times as much butter and butteroil (366,000 MT vs. 21,000 MT), over 3 ½ times as much nonfat dry milk (243,000 MT vs. 68,000 MT), and a whopping 939 times as much "other dairy products" (939,000 MT vs. 1,000 MT) as we are.

Nothing has changed. This is not the level playing field we were promised. Subsidized European dairy exports will continue to undercut our products on the world market for years to come. Our members wonder how can we expect to compete with these kind of export subsidies stacked against us.

DEIP, the Foundation of Current U.S. Dairy Exports, Will be Cut

At the same time subsidized European exports continue on a major scale, our Dairy Export Incentive Program (DEIP) is cut back under GATT requirements. DEIP exports account for much of our current foreign sales, which would not otherwise have been economically feasible at current prices. For example, DEIP exports to Mexico during 1993 included 48,577 metric tons (MT) of nonfat dry milk and 10,544 MT of butterfat.

GATT Expands the Role of the New Zealand Dairy Board

The Foreign Agriculture Service's March 1994 report titled *Dairy: World Markets and Trade* confirms our concerns about the growing influence of aggressive dairy exporters like New Zealand under the new GATT. It notes that New Zealand and Australia have expanded their share of world dairy exports from an estimated 28% in 1989 to 41% in 1994. It further notes that the new GATT "will accelerate the role of New Zealand and Australia."

The FAS report also warned about the growing influence of aggressive, monopolistic national export trading companies such as the New Zealand Dairy Board. New Zealand, through its U.S. subsidiary, may be able to influence dairy prices in our market to the detriment of the domestic industry. The primary concern of the NZDB is to clear their home market and move dairy products out of New Zealand at any price. Thus, individual American dairy producers and processors will find themselves in cutthroat competition with a quasi-governmental agency with very deep pockets.

The FAS report notes that "While the outlook for Oceania exporters appears bright as they assume a dominant role in world dairy trade, there is likely to be increasing scrutiny paid to their monopolistic trading Boards. This is particularly true of the New Zealand Dairy Board (NZDB) which as a statutory export monopoly has the advantage of sole sourcing (and pricing) rights for New Zealand dairy products destined for export markets. The NZDB is rapidly expanding overseas and assuming the role of a multinational trading company rather than a producers marketing board. While the Uruguay/GATT round by-passed the issue of marketing boards and State trading companies, the NDZB remains an unreformed and anti-competitive entity."

Based on the FAS report, we are concerned that the New Zealand Dairy Board may violate U.S. anti-trust laws. We urge the committee to request a formal opinion by the Justice Department and Internal Revenue Service.

Sanitary Standards Should be Harmonized Upward, Not Down

The Uruguay Round establishes the *Codex Alimentarius* as the standard for harmonizing international sanitary standards in the many areas where significant differences exist. The *Codex* is a Rome-based agency of the United Nations, and is controlled by the multinational chemical companies it is supposed to regulate. The *Codex* is much weaker than U.S. standards for pesticide residues, antibiotics and other critical substances. Despite the differences, the U.S. will be required to admit *Codex*-legal imports if any other country successfully challenges our standards as non-tariff barriers, as we expect they will.

Americans are threatened by a woefully inadequate dairy import inspection system and weak global sanitary rules which do not require dairy imports to meet the same strict standards required on our dairy farms and plants. Consumers face the threat of contaminated imports in supermarket shelves, and dairy farmers face unfair competition from cheap dairy imports which do not bear the high cost of complying with our much more stringent and expensive sanitary standards.

Public Citizen, the consumer watchdog group, has just released a new study which documents the increased food safety risks under the new GATT agreement. The study found that GATT could increase the risk of cancer-causing pesticides on imported food and undermine vital consumer protections including bans on hormone treated beef, restrictions on irradiated food, and meat and poultry inspection.

The risk is heightened by the fact that the Food and Drug Administration and U.S. Customs Service physically inspect only about 2% of imports. These already inadequate import inspections will be further weakened as agency personnel and budgets are reduced under the current program to "reinvent government."

We encourage the Committee to give the study careful consideration and use its influence to make sure that food safety concerns for dairy and other foods are adequately addressed in the GATT implementing legislation. Specifically, Congress should transfer dairy import inspection authority to the U.S. Department of Agriculture, which already

has the resources and authority to require that imported meat and foreign meat packing plants meet U.S. sanitary standards.

Not only would USDA have authority to physically inspect foreign dairy plants outside of our borders, this transfer of inspection authority would also save considerable tax dollars by shifting the cost of inspections to the exporting countries instead of U.S. taxpayers who now pay the cost of dairy import inspections at the border. Savings from this solution could also help fund the cost of implementing the new GATT agreement.

Don't Make Dairy Pay GATT Funding Costs

We urge the Committee to join us in fighting any attempt to make dairy farmers share in the estimated \$13.9 billion cost of implementing this new GATT agreement over a five-year period. The Administration is said to be considering between \$3 billion and \$5 billion in additional agricultural spending cuts to help meet this revenue shortfall.

As we stated April 14 in letters to key administration officials, dairy farmers have suffered more than enough from low prices and ever-higher producer assessments without having to bear the added costs of GATT implementation. Federal dairy program costs have dropped dramatically due to lower support prices and rising producer assessments, declining from a high of over \$2.5 billion in 1983 to \$253 million for fiscal 1993.

Although full details of the Administration's GATT funding plans are not known, we fear the worst given what's happened to dairy under the multilateral trade talks so far. Auctioning of historic dairy import licenses is just one GATT funding proposal under consideration. As we've warned, this auctioning proposal must be rejected because it would give greater control over our domestic dairy market to aggressive national export entities like the New Zealand Dairy Board. It also makes no budgetary sense because a Congressional Research Service study has shown that auctioning of cheese licenses would raise little revenue.

World Trade Organization is Anti-Democratic

We really believe this hearing is not about a new trade agreement, but rather about our abdication of our ability to chart our own destiny. A key element of the Uruguay Round is the creation of a new international agency, the World Trade Organization (WTO) consisting of panels of unelected international trade bureaucrats. The WTO will have enormous powers to arbitrarily affect the lives of citizens in GATT member nations throughout the world in very undemocratic ways. The WTO will usurp our sovereignty to establish and enforce sanitary standards and other fundamental policy questions which rightfully belongs to elected national, state and local units of government. The WTO is unaccountable and its process is closed to the public and news media.

Since the Uruguay Round establishes the WTO as a new international agency with considerable power over U.S. domestic policy, it qualifies as a treaty which should be subject to two-thirds ratification by the U.S. Senate instead of simple majority in both houses. We urge concerned members of Congress to pursue this issue.

What Must be Done Now

Ideally, Congress should suspend fast track rules and make whatever amendments are needed to make GATT comply with U.S. laws and democratic principles. Since we do not realistically expect that to happen, Congress should instead insist upon the following points in the implementing legislation:

- Insist that U.S. negotiators find a less disruptive way to implement minimum access for dairy imports;
- Require that any new dairy imports be distributed evenly over the year to prevent a glut of products from depressing domestic dairy markets;
- Insist that export subsidy reductions be made more equitably and uniformly among GATT member nations;
- Request a formal opinion about possible New Zealand Dairy Board violations of U.S. anti-trust laws;
- Transfer inspection authority from the FDA to USDA to improve protections and save money;
- Don't make dairy pay for cost of GATT by various unfair and unworkable proposals, including the proposed auctioning of historic cheese import licenses; and
- Insist on preserving U.S. sovereignty over sanitary standards and other national concerns relative to the World Trade Organization.

Thank you for this opportunity to present our views.

(Attachments follow:)

AGRI-VIEW • March 17, 1994

GATT Dairy Impact: 55 Cents, Maybe More

By Joel McNair
State Editor

A new worldwide trade deal that is expected to gain final approval later this year could end up costing U.S. dairy farmers at least 55¢ per hundredweight in lost milk income.

Neal Bjornson, an economist at AMPI's corporate office in San Antonio, Texas, is making that prediction. He says the General Agreement on Tariffs and Trade (GATT) will create 4.1 billion pounds of additional imports and lost exports that the U.S. industry will have to deal with each year by the end of the decade. GATT will be addressed in Congress this year.

Bjornson's numbers, drawn from preliminary USDA information on GATT, amount to almost 3% of the total current U.S. domestic market for dairy products. While noting that dairy will have some time to adjust during the six-year phase-in period included in the latest GATT agreement, Bjornson acknowledged that his 55-cent estimate may be low.

"I can certainly build a higher number,"
explained the co-op economist.

After seven years of talks, trade negotiators representing 117 nations under the GATT structure agreed to a new pact last December. Final details of what individual countries must offer in the way of reducing trade barriers and domestic support programs are not expected to be available before the end of March.

Signing expected next month

World leaders are expected to participate in a formal signing of the deal next month, and Congress is likely to vote to approve it without any amendments later this year. It is scheduled to take effect in July of 1995.

While many countries have yet to report their market access provisions, enough information is available concerning dairy to make some fairly accurate projections, Bjornson said. To this economist, the early outlook isn't very pretty for U.S. dairy farmers.

Under the new GATT, Section 22 quotas that place relatively strict import limits on foreign dairy products will be replaced with tariffs (taxes) that will be gradually lowered through the year 2000.

According to the USDA numbers as interpreted by Bjornson, the U.S. will be required to allow 318 million pounds of foreign cheese to be imported by 2000. That's an increase of 68 million pounds, or 28%, from the quota limits currently required by Section 22.

Milkfat imports will increase nearly 40 million pounds -- a 387% jump from cur-

rent levels. Nonfat solids imports will rise by more than 20 million pounds - a 114% gain.

The U.S. will gain a small amount of market access in Japan, Bjornson notes. Japanese doors will open to eight million pounds of ice cream mix by the time the six-year phase-in is completed. On paper, the U.S. also gains a small new market for whey powder. But Bjornson said it is not clear at this point whether the Japanese whey import requirements under this trade deal are any greater than what the U.S. is already selling there.

As far as guarantees for export sales go, that's about it for the U.S. dairy industry, Bjornson lamented. Americans may gain "most favored nation" trade status from the 12-nation European Union (EU) and countries such as South Korea and perhaps Canada.

The EU must open its doors to 33 million pounds of cheddar and 11 million pounds of mozzarella under this agreement. South Korea will provide access for 62 million pounds of whey powder. Though Canada is supposed to grant similar concessions, the Canadians are balking in talks with U.S. officials, Bjornson noted.

But he asserted that the U.S. has no guarantee of winning these markets. Said

Bjornson. "There is that potential, but to what extent will Australia and New Zealand be jumping into these markets?" Both countries sell milk at prices far below those of U.S. farmers.

"We're still talking price, and I'm not particularly enthused about an \$8 farm price," said the economist.

The U.S. may actually lose export sales under the GATT scenario. That's because the subsidized Dairy Export Incentive Program (DEIP) must suffer massive volume reductions over the next six years.

Because of GATT, the DEIP will lose the ability to sell 55 million pounds of butter — a reduction of more than 50% compared to the current limit. Allowable nonfat dry milk DEIP sales will decline by more than 100 million pounds — a 40% decline. Cheese DEIP limits will fall by two million pounds, and whole milk powder will be eliminated altogether as a DEIP item.

While not all of the DEIP items have actually been exported in recent years, Bjornson argued that the reductions are likely to have a price impact here. While the amount of EU export subsidies will fall more on a volume basis, the percentages are much lower compared to the U.S. cuts. That's because the GATT base from which reductions are being made was much higher for the Europeans, Bjornson explained.

"This is a good illustration that the 'level playing field' will not exist," he noted.

When Bjornson adds it all up, he sees the U.S. dairy industry with a 4.1-billion-pound annual problem stemming from greater imports and lesser subsidized export sales. With the six-year phase-in, farmers won't feel major impacts overnight.

"Adjustments" in the market over those six years will limit the milk price blows, he forecast. "That's a polite way of saying that we're either going to downsize the production side or else grow the market," Bjornson explained. "Frankly, it will probably be a combination of both."

March 25, 1994



What's GATT going to do to your milk check?

by Hoard's Dairyman staff

THE question in the title is the question which has been on U.S. dairy farmers' minds ever since the Uruguay Round, General Agreements on Tariffs and Trade (GATT), discussions began eight years ago. No one can give an answer yet.

Not only is there a GATT agreement (Final Act of the Uruguay Round) which concluded on December 15, 1993, there also are "details" not contained in the Final Act. Those details are in what are known as "country schedules," specific commitments to which each country agrees according to the framework specified in the text of the Final Act agreement on agriculture. The details won't be incorporated into the new trade agreement until April 25, 1994. GATT has set a provisional target date of July 1, 1995, for implementing the Uruguay Round.

Here's what is known about the agreement. The information was provided by the National Milk Producers Federation and its staff economist, Peter Vitellano. The Federation has been active throughout the negotiations, providing input during the entire process. The analysis of how GATT will affect the U.S. dairy industry and farm prices for milk is our own.

Export subsidies: All participating countries (there are 117) must reduce export subsidies by 21 percent in volume and 35 percent in value over six years from average levels during the 1986 to

1990 base period. The six-year phase-in begins as soon as the agreement is finalized.

For dairy, countries will make the subsidy reductions for four separate product groups: butter and butteroil, nonfat dry milk, cheese and "other dairy products."

The U.S. and European Community will have to reduce their subsidized butter exports over the six years according to the schedule in the table.

Subsidized exports under GATT				
Product	U.S.		E.C.	
	Base quantity	Final quantity	Base quantity	Final quantity
million pounds of product				
Butter, butteroil	101.4	48.3	806.9*	
Nonfat dry milk	255.7	149.9	582.0	515.7
Cheese	6.8	6.8	911.4	672.4
Whole milk powder	33.1	0.0		
"Other"			2,658.7	2,070.1

* Less than this amount in recent years

The U.S. will reduce subsidized exports of butter, nonfat dry milk, cheese and whole milk powder by 51.3, 41.4, 25.0 and 100 percent over six years.

The EC must reduce nonfat dry milk by only 8 percent, cheese by 22.6 percent and other dairy products by 22.1 percent. The EC's exports of butter and butteroil can be as high as 806.9 million pounds, but it has exported less than that amount in recent years.

Market access: All quotas (including Section 22 quotas in the U.S.), variable levies, import licenses and other nontariff trade barriers will be converted to tariff-rate quotas through a process called "tariffication." Under a tariff-rate quota, a specified quantity, the tariff-quota quantity, of a particular product may be imported each year at a zero or low rate of customs duty into the country maintaining the tariff-rate quota. Imports in excess of the tariff-quota quantity during any year will be subject to a considerably higher rate of duty known as the overquota tariff.

The tariff-rate quota levels for each country

and for each product subject to tariffication must be at least equal to the level of imports during the 1986-1988 period or 5 percent of the country's domestic consumption of the same product during the same period, whichever is greater.

For countries and products for which imports represent less than 5 percent of domestic consumption, access must be at least 3 percent of

The net result of GATT for dairy is a guaranteed 28 percent more imports of dairy products over present quota amounts. With imports now amounting to 2.9 percent of production, the amount would rise to about 3.7 percent. Guaranteed market access for U.S. exports as a result of GATT is minimal.

The 1.2 billion pounds of milk equivalent more allowed into the U.S. under GATT can do nothing but lower farm milk prices. How much? It depends. If all conditions remain the same as now, prices would be about 3 to 4 percent lower. With \$13 milk, GATT would cost you from 40 to 55 cents a hundred.

consumption as soon as the agreement is in force and must total the 5 percent minimum access target six years later, around the year 2000.

The market access agreement also specifies that all tariffs must be reduced over the six-year phase-in period by an average of 36 percent; each product is subject to a minimum tariff reduction of 15 percent. That means the U.S. could lower tariffs on cheese, for example, by only 15 percent as long as it made a larger tariff reduction somewhere else so the average was 36 percent.

Still have quotas . . .

The U.S. must convert its current import quotas on cheese into tariff-rate quotas at the current total quota quantity of 242.5 million pounds per year. This figure represents more than 3 percent, but less than 5 percent, of U.S. domestic cheese

consumption. The tariff-quota quantities will rise a maximum of 23.2 percent. At the end of six years, they will be up to 216.8 million pounds, with 56.3 million pounds of the total due to the GATT agreement.

The increase will be allocated to individual countries and to individual cheese varieties.

Imports in excess of tariff-quota quantities will be subject to a tariff of 105.5 percent. These overquota tariffs will be reduced by the minimum 15 percent over six years. However, in all cases for dairy products, the overquota tariffs will be high enough that imports in excess of the tariff-quota quantities will not occur.

The U.S. currently has an agreement with countries that export cheese to the U.S. under Section 22 quotas that prevents them from undercutting U.S. wholesale cheese prices if they subsidize exports. The Uruguay Round agreement keeps this price-undercutting protection for U.S. cheese imports, including the new access quantities which will be phased in over six years.

Under the Final Act agreement, the U.S. also will convert current import quotas on noncheese products, such as butter and nonfat dry milk, to tariff-rate quotas. By the year 2000, 32.3 million pounds more of milkfat will be allowed into the U.S. than under current quotas, an increase of 223 percent. Nonfat milk solids rise 9.4 percent to 30.2 million pounds from 27.6 million pounds allowed under current quotas.

These percentage rises in milkfat and nonfat milk solids will be allocated among fresh and frozen cream, evaporated and condensed milk, nonfat dry milk, dried whole milk, dried cream, dried whey and buttermilk, butter, butteroil and butter substitutes, articles of milk and cream, chocolate crumb, milk replacer feed, ice cream and mixtures containing 5 to 45 percent milkfat.

For dairy products not subject to Section 22 quotas and not subject to tariffication, the U.S. will reduce tariffs by the minimum required, 15 percent, over 6 years.

These products include fluid milk; yogurt not in dried form; fluid buttermilk; fermented milk not

in dried form; whey protein concentrate; fluid whey; milk protein concentrate; "products of natural milk constituents (not restricted)"; fresh, grated, powdered or processed cheese not subject to restriction; Stilton cheese produced in the United Kingdom; certain types of Bryndza, Gjetost, Gammeost and Kokkeost cheeses; Goya cheese in original loaves; chocolate milk drink; and caseinates.

Chocolate block, casein and lactalbumin now enter the U.S. quota and duty-free. They will retain free import status under the agreement.

In review, here's what GATT negotiators gave up affecting dairy: 56.1 million more pounds of cheese, 28.2 million more pounds of milkfat and 20.2 million more pounds of total milk solids can enter the U.S. at the end of the sixth year of the agreement than can presently do so with quotas.

Milk equivalent on a total solids basis is 1.2 billion pounds. Imports in 1992 were equal to about 4.3 billion pounds of milk equivalent (total solids basis). Therefore, GATT will allow about 28 percent more imports than under current quotas.

The EC still will be able to subsidize considerable quantities of dairy exports. However, those subsidy dollar amounts must be reduced by 36 percent from the base levels.

The U.S. dairy industry received very little in return from the GATT negotiations:

Around the world, the U.S. dairy industry will receive tariff cuts for all dairy exports. However, those export markets are not for guaranteed access. U.S. exporters will be in competition with other countries having dairy products to export at higher subsidies and at quantities greater than allowed for the U.S. under GATT.

In return for giving up 1.2 billion pounds of the U.S. market, Geneva negotiators gained little in new markets. All the U.S. dairy industry has for guaranteed access is in Japan for 8.2 million pounds of ice cream mix powder and 2.9 million pounds of whey powder.

Under the Final Act agreement on agriculture, participants will commit to reduce their domestic supports to agriculture by 20 percent over the six

years from the 1968-1988 base U.S. already has reduced its domestic support by more than 20 percent. Therefore, no changes are needed in the dairy price support or other agricultural commodity programs.

Sanitary measures must be applied only to protect human, animal or plant health and should be based on sound science. For example, under the agreement, a country that imposes a ban on imports of dairy products from countries in which recombinant bovine somatotropin is approved would be challenged.

Figure 3.2

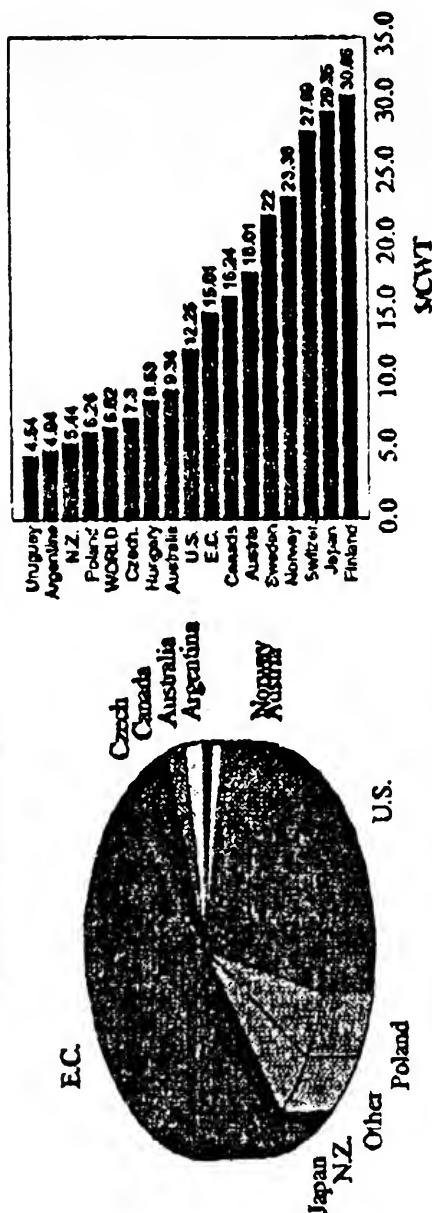
MILK PRODUCTION AND PRICES

Selected countries, 1991

Milk Production

Milk Prices

COUNTRY



Milk Production = 570,771 mil. lbs.
18 primary producing countries

1991 World Milk Price = \$6.62/cwt

Export farm price (US\$/cwt) for individual countries shown in parentheses.
Sources: OECD, GATT, Produktschap voor Zuivel, IDF, Nedl Stels., MMB.

Dairy Import Increases under Uruguay Round					
Tariff Rate Quotas (TRQ) in Metric Tons (MT)					
<i>Source: NMPF 12/22/93 analysis</i>					
Category	Current Quotas	Yr 1 TRQ	% Ch	Yr 6 TRQ	% Ch
Cheese	110,000	N/A	N/A	141,000	28%
Non-Cheese, Milkfat	5,200	13,000	150%	22,800	338%
Non-Cheese, Nonfat	12,516	16,100	29%	26,800	114%
Total	127,716	29,100	N/A	190,600	49%
Access Provisions for Non-Cheese Items					
Metric Tons (MT)					
<i>Source: Other. Confirmed by senior USDA dairy official.</i>					
Product	Current	Yr 1	% Ch	Yr 6	% Ch
Butter	321	4,000	1146%	7,000	2081%
Butter Oil	544	3,500	543%	6,100	1021%
Nonfat Dry Milk	820	1,500	83%	5,500	571%
Whole Milk Powder	3	500	16567%	3,000	99900%
Total	1,688	9,500	463%	21,600	1180%

TESTIMONY OF ROBERT WATTS

CHAIRMAN

RICE MILLERS' ASSOCIATION

Good Morning Mr. Chairman, my name is Robert Watts. I appear here this morning on behalf of the Rice Millers' Association (RMA) and the U.S. Rice Producers' Group (USRPG). RMA is the national trade association of the U.S. rice milling industry. Members are both farmer-owned cooperatives and privately owned mills, as well as affiliated companies engaged in inspection and freight services, warehousing, exporting, food manufacturing, equipment manufacturing, port authorities, stevedoring, shipping and other industry representatives. The U.S. Rice Producers' Group consists of rice producers and affiliated groups in the principal rice producing states.

I am currently serving as Chairman of the Board of the Rice Millers' Association. I live and work in Houston, Texas where I am Vice President for Commodity and International for Riviana Foods Inc., a rice milling and marketing firm.

U.S. Rice Trade Background

The U.S. rice industry has faced the rigors of international competition for many years and has maintained a 15 to 20 percent share of world trade. Today, U.S. rice is sold in 116 countries and our industry is widely recognized for quality and as a reliable supplier. Having a major stake in international trade, the U.S. rice industry believes it was important a good GATT agreement be reached in the Uruguay Round.

The U.S. is a competitive international rice marketer in spite of extensive government intrusion in the production and marketing sectors of our export

competitors, current customers, and potential customers. Unfortunately, the damaging effects of such intervention will not be completely repaired with implementation of the Uruguay Round Agreement.

U.S. Rice Trade Concern

While the end of import bans in Japan, South Korea and hopefully other countries provide a great deal of optimism for an expanded and strengthened world rice market, there are a number of trade practices among other countries, most notably the European Union (EU), Thailand, Vietnam and others which give rise to our concern.

Although agricultural export subsidies have been disciplined by the Uruguay Round agreement, they have also been legitimized by it. Their continued use, at a lower volume and expenditure rate, will continue legally sanctioned throughout the implementation period. We have every reason to believe the EU will, in fact, take every opportunity to fully capitalize on this new international understanding regarding export subsidies.

Mr. Chairman, it is critical that the U.S. government act to protect the international market interests of U.S. agriculture by fully utilizing export assistance allowed in the Uruguay Round agreement. We urge the use of each and every GATT legal tool to maximize exports of U.S. rice. This includes aggressive use of the Export Enhancement Program (EEP) when necessary. The EEP has helped the U.S. maintain important markets in the Middle East, Eastern Europe and the former Soviet Union,

in spite of heavily subsidized EU competition. It is critical that the U.S. not unilaterally disarm while the Europeans fully utilize every export subsidy permitted under the GATT agreement.

To that end, we recommend that the Uruguay Round implementing legislation include provisions to reform the EEP program so that it no longer is limited as it is now to discouraging unfair trade practices by other exporting countries. In the future many export subsidies of other countries that were considered unfair trade practices will be permissible so long as they do not exceed the limits prescribed in the Uruguay Round. In the case of rice, in particular we request that the EEP program be made available for use in all markets where the U.S. faces subsidized competition from other countries such as Vietnam and Thailand. EEP has never been used against Thailand or Vietnam in spite of ample evidence of export subsidies and subsidized state trading.

To encourage full use of the program, we recommend that the EEP legislation also be amended to require the Secretary each year to make use of the full amount of funds and commodities that may be used for agricultural export payment programs under the Uruguay Round. We would like to see in legislation what the Secretary recently promised at a recent hearing before this Committee, namely that he would use EEP to the maximum. As you know, the Uruguay Round Agreement requires a reduction of 36 percent in outlay commitments and of 22 percent in volume commitments over a six year period. Overall, it means a 36 percent reduction from approximately one billion dollars that is authorized to be used in the first year. In the

case of rice, it means a reduction from \$15.7 million in the first year to \$2.4 million in the sixth year and a similar reduction in volume. We should not allow these funds to be lost.

We also favor continued funding for other market development and market expanding programs such as the Market Promotion Program (MPP) and Foreign Market Development Program (FMD). The U.S. must continue to use programs, such as these, that are allowed by Uruguay Round Agreement in order to keep pace with our competitors. If we do not, we will lose past gains and future battles in important markets.

The rice industry also believes that U.S. food aid program funding levels must not be reduced. Maintaining, or even increasing, funding for food aid programs is consistent with a commitment made to developing countries that the Uruguay Round Agreement would not adversely affect the availability of food aid. Numerous studies, including reviews by the Food and Agriculture Organization and the International Food Policy Research Institute concluded that the poorest, food importing countries will be adversely affected and will require special treatment. Food aid programs fit within the so-called "green box" and are not considered trade distorting. The GATT implementing legislation should acknowledge and confirm the U.S. commitment to increasing global food aid levels.

U.S. Rice Position on Uruguay Round Agreement

The U.S. rice industry has been a strong, proactive supporter of U.S. efforts

in the Uruguay Round since the outset of the negotiations. While the Agreement falls short of the original U.S. objectives, the industry fully supports the agriculture provisions because of the progress they will make in providing greater access to rice markets of GATT member countries. By not allowing provisions granting exceptions for rice, market access provisions of the Agreement, if fully implemented as the industry currently understands them, will establish new and expanded opportunities for rice exports.

We believe the removal of import bans, conversion of non-tariff barriers into tariff equivalents, reduction of tariffs and the decline in subsidized exports will significantly expand and improve the global rice trading environment. We urge the U.S. Government to aggressively seek to build on the progress that has been achieved with this Agreement in future negotiations. Moreover, given the likely entry of Taiwan to the GATT in the near future, the U.S. rice industry expects the U.S. Government to obtain, as a condition for accession, an agreement that provides for clear and significant rice market access.

Based on the information available as of today, we find the agreement to be reasonably equitable and reciprocal. While there are clearly different levels of concession required of some countries, we are satisfied that reduced concessions offered by developing countries relative to those offered by the U.S. are generally appropriate.

With regard to market access concessions offered by developed countries as of today, we believe there is generally an acceptable level of equity and reciprocity.

For example, although Japan was not subject to immediate tariffication and a tariff reduction schedule under the terms of the Agreement, Japan offered a larger quota than required under the Dunkel formula. We find this arrangement to be adequate reciprocity. However, the industry has reservations over South Korea obtaining developing country status with respect to the agricultural provisions of the Agreement, a development which has enabled that country to avoid the more stringent disciplines imposed on developed countries.

With regard to the European Union, the EU's commitment to maintain its current import access levels for rice, while a positive development, falls short of meeting the Uruguay Round objective of expanding market access opportunities. The industry requested a tariff rate quota system be established by the EU to satisfy the market access objective of the negotiations. However, the EU rice market access provisions, including a bound tariff schedule and a bound margin of preference, could generate additional market access if implemented as the U.S. rice industry currently understands them.

We are concerned that market access commitments and mechanisms for some countries are not complete. And we believe it is inadequate for those countries to be allowed to have binding commitments offering less access than a GATT member of comparable economic status using the EU, Japan and Korea as models.

Funding the Uruguay Round at the Expense of Agriculture

It has come to our attention that the Administration has under consideration

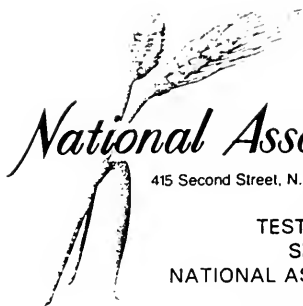
various proposals, to offset the loss of \$14-\$16 billion in lower revenues due to reductions in existing U.S. tariff levels. One of these proposals we understand would require significant reductions in current farm and related programs to help offset a major portion of these revenue losses. The reduction would far exceed the revenue losses due to lower tariffs on agricultural imports which account for only 5 percent or less of the estimated \$14-\$18 billion in revenue losses.

We cannot emphasize enough how strongly we oppose any such requirement. It would be completely contrary to the Administration's repeated assurances to agriculture throughout the negotiations relating to the GATT. In meeting after meeting, we were repeatedly assured that the new GATT agreement would not require any further reduction in domestic income and price-support programs. At the same time, the Administration consistently emphasized its commitment to fully and aggressively utilize the full range of authorities under GATT to maintain U.S. agriculture's ability to remain competitive in the international marketplace. If the proposal should be effectuated all these assurances would become empty promises, and many in the agriculture sector would seriously question the gains that have been advertised to result from the new GATT agreement.

Conclusion

In summary, we urge Congress to approve the Uruguay Round agreement but require the administration to (1) reform the EEP to require full utilization of all allowed export assistance; (2) reject any attempt to require agriculture to pay for the loss in tariff revenues, attributable to the Uruguay Round, other than losses on agricultural imports; and (3) accept nothing less than full compliance by all GATT members with terms, conditions and provisions established for their GATT determined economic status.

Thank you Mr Chairman for this opportunity for the rice industry to make its concerns and hopes known to you and the Committee regarding the Uruguay Round agreement. I will be happy to answer questions.



National Association of Wheat Growers

415 Second Street, N.E., Suite 300, Washington, D.C. 20002, (202) 547-7800

TESTIMONY OF CHUCK MERJA SECRETARY-TREASURER NATIONAL ASSOCIATION OF WHEAT GROWERS

Before the Committee on Agriculture
United States House of Representatives

April 20, 1994

Thank you for the opportunity to discuss the Uruguay Round agreement and its impact on U.S. agriculture. My name is Chuck Merja. I am a wheat and barley producer from Sun Valley, Montana. I appear before you today as Secretary-Treasurer of the National Association of Wheat Growers.

The goal of the Uruguay Round was to achieve greater liberalization of trade in agriculture and to bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines.

We believe that this goal was attained on both points, but that the results, even at the end of the six year implementing period, will be fairly modest, especially for export-dependent commodities like wheat. The U.S. farmer's ability to export to new and established markets will be largely determined by how the administration and Congress intend to proceed on the implementation of the Uruguay Round agreement.

In order to meet its obligations under the Uruguay Round and to remain competitive in an only slightly less hostile world trading environment, the U.S. has agreed to accept staged reductions in the annual volume and value of the export enhancement program or EEP. According to the Uruguay Round Final Act, the U.S. will be required to cap its EEP volumes and values at specific base levels and to reduce these amounts by 21 percent in terms of volume and 36 percent in terms of value from the levels maintained in 1992. In the case of wheat, when fully implemented, the new GATT agreement will have curtailed European wheat subsidies by an amount roughly equivalent to a poor wheat crop in Italy. In other words, not very much. Moreover, the GATT accord will do nothing to discipline the unfair practices of monopolistic state trading agencies or other countries who employ predatory pricing practices to enhance world market share.

It is our understanding that the administration currently plans to recommend revisions to the EEP in the implementing legislation so that it meets U.S. obligations under the GATT agreement. We believe that it is imperative that the legislative

authority for EEP be revamped to reflect broader market development and export expansion objectives as well as to be funded at levels proscribed by the Uruguay Round reduction schedule. Such action will ensure that the U.S. will be able to maintain its current competitiveness and be in a position to take advantage of the growth in the non-subsidized share of the world market.

We strongly recommend that the Uruguay Round implementing legislation amend the statutory authority for EEP to include the following objectives:

1. EEP must be redefined to focus on foreign market development and export expansion. The statutory definition of EEP as a "response to unfair trade practices" has restricted use of the program to countries where U.S. exports have been displaced by the European Community's subsidy programs. Now that EEP is no longer needed as a trade policy tool, there is an appropriate role for EEP in developing foreign markets and expanding exports. This purpose will allow the U.S. to compete more effectively and on near equal terms with all exporting countries, especially those left undisciplined by the Uruguay Round commitments on export subsidies.
2. EEP operations must be broadened to include all foreign markets and streamlined to increase effectiveness. Targeting of EEP solely against the unfair trade practices of Europe has prevented competition in key markets, reducing export volume and increasing costs. Moreover, targeting has required approval by other agencies, a time-consuming and often public process that allows other exporting countries to undercut U.S. prices and complete export sales. Opening EEP up to all markets would eliminate the need for inter-agency approval, allowing more efficient use of funds available for the program.
3. EEP funding must be made available and required to be used to the full extent permitted by GATT. The amount of outlays permitted to be used for export subsidy programs during each year of the implementation period is specifically identified by commodity-sector in the GATT agreement. In order to maximize U.S. competitiveness, funding provided for these programs in each fiscal year must equal or exceed the total amount permitted to be used. In addition, all funds made available must be required to be obligated.
4. Outlay reductions in EEP required during the GATT implementation period must be redirected to fund "green box" agricultural export programs. The need for government assistance in maintaining the competitiveness of U.S. agricultural exports will not decline as EEP outlays are reduced. Many of the trade practices of other exporting countries are not subject to GATT discipline. The role of export promotion activities, in particular the foreign market development program, and food assistance programs

in supporting private sector efforts to access foreign markets will only become more important as U.S. export subsidies are phased down. The NAWG strongly supports a requirement in the GATT implementing legislation that funds equivalent to required reductions in EEP and other subsidy programs be shifted to export development activities not subject to reduction under GATT.

On this point, we are discouraged by the administration's decision to cut support for "green box" export promotion programs in its budget for fiscal year 1995. In its budget request, the Department of Agriculture reduced its funding for the foreign market development program, the market promotion program, and the PL-480, Food for Peace program by \$320 million. It completely eliminated the sunflower oil assistance program and the cottonseed oil assistance program. It is disturbing to see the United States unilaterally disarming its export programs, particularly those programs permitted by the GATT, ahead of the implementation of the Uruguay Round agreement. The NAWG strongly urges the administration to take a highly aggressive stance in the operation of the EEP prior to the Uruguay Round agreement entering into force. Unless the unrestrained export practices of our competitors are effectively countered in this interim period, the U.S. will enter the implementation period with fewer resources, potentially higher stocks overhanging the U.S. market, and a sharply reduced share of the world market.

In closing, I would like to say a few words about the recent reports we have heard regarding various proposals the administration is considering to pay for the implementation of the Uruguay Round GATT agreement. We understand that the administration could propose to cut support to U.S. agricultural programs by amounts as high as \$4.8 billion. In other words, the White House may ask agriculture to bear the burden of one-third of the funding offsets necessary to implement a trade agreement while tariff revenue losses from agricultural imports account for only about 5 percent or less of the estimated total.

According to USDA's own analysis, wheat farmers can only expect to see their income increase by some six percent by the end of the six-year implementing period. What benefit could possibly accrue to U.S. wheat producers from this agreement if they had to accept unilateral cuts in support, while the competition remained untouched? Furthermore, three Presidential administrations have assured U.S. agriculture that it would not have to take additional reductions in support above those already taken in since 1985.

Again, I would like to thank you for the opportunity to appear here today. We look forward to working with the administration and this committee as we move toward passing the Uruguay Round implementing bill.

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**Testimony
submitted by
David Senter**

Thank you Mr. Chairman for holding this hearing and allowing the American Corn Growers Association (ACGA) to testify. I am David Senter, director of Congressional Affairs for ACGA. The ACGA is deeply concerned about the final draft of Uruguay Round of the General Agreement on Tariffs and Trade.

Over the course of the negotiations, our organization has monitored the talks very closely, traveling to Geneva, Tokyo and other cities around the globe to find out exactly what was being proposed, what impact this would have on world trade, and how this would affect America's family farmers, especially those producing corn and other feed grains. Frankly, we have been shocked by the blatant anti-farmer proposals that have been made by both our own government and by other governments around the world.

Our members have written thousand of letters to the Reagan, Bush and Clinton Administrations, and to members of Congress, describing the specific concerns that we have with this treaty. The problems created for America's family farmers and rural communities will be numerous.

This treaty which includes the Bush Administration's proposals for tariffication will abolish current US laws controlling the imports of agricultural products, such as our Section 22 provisions in the Farm Bill and the Meat Import Act, replacing these effective laws with ineffective tariffs that would then be phased down or out over time. Given the ease in which countries can move the value of their currencies, tariffs are simply an ineffective means of maintaining an effective and balanced control over imports in sensitive industries. This ineffectiveness of tariffication was recognized by the 60 US Senators who wrote to the previous Administration informing them that they would not accept any attempt by GATT to use tariffication to weaken Section 22.

The GATT agreement mandates minimum imports of 5% of domestic consumption for everything. Currently we import less than 5% in dairy, peanuts, soybeans and, in some years, wheat, 3% must be imported and raised to 5% within 6 years. We can convert existing controls to tariffs but these and other tariffs must be cut by 36% over 6 years with 15 % minimum cuts for every item.

The GATT deal should have concentrated on reducing and ultimately banning export dumping, but it did not.

Reducing export dumping was never seriously pursued. The only area efforts occurred were in the granting of direct government subsidies to exporting firms. Within 6 years budgetary outlays for direct export subsidies must be reduced by 36% and the quantity reduced by 21% compared to 86-90 reference period. A few crops the reference period was moved to 90-91 to permit a increase in quantity that could be dumped.

The US agreed to a peace clause to not challenge GATT legal subsidized imports for 9 years.

We oppose the direction in the GATT deal to move to direct welfare type decoupling payments. Farm programs are not welfare programs. The most talked about plan today is revenue assurance.

The sanitary and phyto-sanitary provisions in the agreement is completely unacceptable. The attempt to allow imported goods to enter the US, with weaker requirements for safety than required of US producers and food processors is absurd.

The sanitary and phyto-sanitary measures developed in the Uruguay Round should not be used to permit discrimination against domestic production, but instead should insure that countries do not use food safety standards to discriminate against either imports or local production.

If federal or state food safety standards are more strict than global standards they will be open to GATT challenge as trade barriers when applied to imported foods. This process of setting ceilings on regulations is called harmonization.

Large fluctuations in world production and stocks, especially in grains, has been a difficult crisis to manage over the past decade. US farmers often bear the brunt of major swings in supply and demand. The Uruguay Round has failed to address this serious problem, although there have been a number of excellent solutions proposed, including the World Food Reserve concept put forward by Senator Conrad.

The final agricultural agreement should have addressed the problem of how to fairly share the cost of maintaining the world's food reserve and the problem of how to equitably share the burden of reducing world stocks when they grow to levels that are market disrupting.

Family farm income will be reduced. The reduction will be through cuts in price support programs and elimination of import controls. The agreement mandated a minimum of 20% cut in farm programs called "internal supports".

The new "Aggregate Measure of Support" (AMS) will look at every local, state and federal program that results in higher agriculture prices or lower farming expenses than would occur without government intervention. This AMS will be bound and then eventually reduced by 20%.

A major flaw in this program is once the AMS is bound, it will be frozen no matter what increases in costs farmers may face in the future.

When you look at environmental and conservation requirements, which in turn increase input costs, this is a big ticket item.

All the attention has been paid to increased markets, but what about our domestic markets. We believe that mandating imports of commodities that are already in surplus will only lower prices and increase losses to farmers.

More volume of goods will lower prices throughout the world, at the same time allowing more imports into the US.

Export dumping of agriculture products, prohibited under the previous GATT, is now implicitly approved as a result of the Uruguay Round. Although GATT Article VI prohibits the selling of any products overseas at prices below the cost of production, including the cost of marketing and a fair profit, the new agriculture text is written to override this prohibition by approving export subsidies and below cost of production pricing. It is likely that there will be an actual increase in the percentage of export dumping (PED) which will drive world market prices even lower. Due to the low level of price demand elasticity, these lower prices will not result in a sufficiently large increase in volume to make up for the lower prices. The end result will be a drop in the value of US grain, oil seeds and other exports.

US farm groups initially hoped that the Uruguay Round would do something to reduce the high level of export dumping of grains, dairy and other farm products by corporations based in the US, Europe, and other countries. Unfortunately, the final agreement actually permits an overall increase in both the percentage of export dumping in some crops and in the quantity of some specific commodities that can be dumped. For example, USDA claims that they will be able to provide subsidies to US based grain exporting corporations to dump an additional 7.5 million more tons of wheat under the final deal than had been previously agreed to. In addition, 1.2 million tons of vegetable oil will also be permitted to be dumped under this deal.

The most troubling aspect of this treaty is the attempts to "write the next farm bill" in these secret negotiations. This treaty makes GATT illegal many of the programs that work well at low cost to taxpayers. This deal is an end to food security and sets in place a race to the lowest price and quality. It sets up a intensive farming pattern that threatens all efforts to move to sustainable agriculture

Most public officials call this an agreement, but I believe its a treaty. It overrides local, state and federal laws. Sets up an appeal process that removes it from the US, US courts and officials and into a new World Trade Organization that will set their own rules whether we like it or not.

The ACGA will oppose passage of the GATT treaty based on the concerns listed in this testimony.

Thank you for inviting the American Corn Growers Association to testify before this committee. If we can be of any assistance, please let us know.

Testimony

submitted by

**Bob Drake, President-Elect
National Cattlemen's Association**

Good morning. My name is Bob Drake. I am a cattleman from Davis, Oklahoma, and President-Elect of the National Cattlemen's Association. We represent more than 230,000 cattle producers nationwide.

Mr. Chairman, the National Cattlemen's Association supports the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) because it represents a good business opportunity. During the last decade we have worked aggressively to develop access, and expand foreign markets. We realize economic growth in our industry is dependent on continued growth in our export markets.

In 1994, the U.S. beef industry will export 12% of the value of its' production. This compares to less than 1% 10 years ago. Export growth has been result of hard fought negotiations gaining access to markets. We cattlemen know our product can compete in the world market if given a fair opportunity.

Reducing trade barriers and gaining market access have been and will continue as a top priority. It is in this spirit of new market opportunities that the National Cattlemen's Association supports this GATT agreement.

The Uruguay Round of the GATT will establish guidelines in the areas of market access, export subsidies, sanitary and phytosanitary measures. Additionally, U.S. agricultural exports will benefit from a number of bilateral commitments with various countries.

The reduction of trade barriers will allow U.S. commodities such as beef and beef products greater access to foreign markets. Under the GATT, non-tariff barriers will be converted to tariff equivalencies (tariffication). This will force countries to maintain minimum access opportunities where there was little or none in the past, and it will ensure that current access levels are sustained.

All tariffs, including those created as a result of tariffication, will be subject to a minimum reduction. Developed countries must reduce tariffs by 15% and developing countries by 10%. Furthermore, each country must make an overall average reduction of 36% for developed countries and 24% for developing countries.

Japan, the largest beef market for the U.S., will reduce its tariff from 50% to 38.5% throughout the six year implementation period. According to Chuck Lambert, Director of Economics for the National Cattlemen's Association, reduction to a 38.5% tariff indicates that annual U.S. beef exports to Japan will be 53,000 metric tons larger at the end of the six year period.

Similarly, under the GATT, South Korea has agreed to gradually expand its annual import quota for beef from 106,000 metric tons in the first year to 225,000 metric tons by the year 2000. The U.S. portion should increase to 40,000 metric tons annually in the final year of the agreement.

A reduction in export subsidies, particularly by the European Union, will create equitable competition in world markets. Export subsidies will be reduced by 21% in regards to quantity and 36% in terms of budgetary outlays. These subsidy reductions, to be phased in over the six year implementation period, will create trade opportunities for U.S. producers who are more efficient than producers elsewhere.

Likewise, the Uruguay Round establishes a strong potential for further reductions in export subsidies through future negotiations.

Under the Sanitary and Phytosanitary (SPS) Agreement of the GATT, any trade-restricting measures used by an importing country to protect human, animal, or plant health must now be based on science. This provision includes the use of risk assessment techniques. The SPS text allows for countries to maintain standards which are stricter than international standards, but they must be justified by science. This provision will prevent countries from using "health requirements" as barriers to trade when in reality they have no relation to health protection. We urge this framework be used vigorously to finally resolve the US-European Union hormone dispute.

We urge you to adequately fund programs which fit the "green box" definition. If the beef industry is to achieve the export market gains expected, these programs are vitally important. The Market Promotion Program (MPP) is instrumental in developing these markets once access is achieved. Rest assured our competitors will not back away from the commitment to get their fair share of these new markets. The MPP and other international programs must be utilized effectively and aggressively if this round of GATT is to be judged a success.

As the process moves forward, GATT implementing legislation should not force U.S. agriculture to bear a disproportionate share of the budget costs. We find it ironic that trade agreements would be judged a revenue loser, given the growth opportunities and expected sales of U.S. products which generate revenue.

Thank you for the opportunity to share our views.

Testimony
submitted by
James Mullins, Chairman
U.S. Meat Export Federation

Good Morning. My name is Jim Mullins. I am here today as a livestock producer from Corwith, Iowa, and as chairman of the United States Meat Export Federation. Also with me today is Mark Gustafson. Mr. Gustafson is senior vice president of technical services for the U.S. Meat Export Federation.

USMEF is a national trade association responsible for developing foreign markets for U.S. red meat products. With its headquarters in Denver, USMEF has seven foreign offices in major markets around the world.

We very much appreciate this opportunity to comment on the Uruguay Round and its implications for the U.S. red meat industry. The fact that this latest GATT agreement took more than seven years to conclude should leave little doubt in anyone's mind about the formidable nature of international trade. As you well know, this is the first time since the GATT was initiated in 1947 that agriculture has been part of the agreement. This, in and of itself, is a major achievement.

Does the Uruguay Round improve our outlook for red meat trade? On balance, I have to say yes. The agreement does, however, fall short of our expectations in several areas. I will come back to this point in a minute, but first let me start on a positive note.

One of the more promising aspects of the Uruguay Round for the red meat industry is the section which contains the sanitary and phytosanitary provisions. These new rules provide for questions of food safety to be resolved on the basis of science, rather than politics or economic factors. We have learned from experience how false claims of food safety and public health can be used to severely restrict trade. The European Union's ban on beef produced with growth promotants and its Third Country Meat Directive are clear examples and have denied the U.S. meaningful access to the European Union.

Under the Uruguay Round, these disputes are to be settled by an independent body on the merits of scientific evidence. In the case of the ban on beef produced with growth promotants, the evidence overwhelmingly supports our current practice. If carried out as intended, these provisions for dealing with questions of food safety are very positive and will benefit trade not only in Europe but around the world.

In terms of market access, the red meat industry has less to be enthusiastic about. Let's look at the beef situation first. Japan, Mexico, Korea and Canada account for 93 percent of total U.S. beef exports. Through the turn of the century, these four markets will continue to represent the beef industry's principal targets.

Under the GATT, Japan will lower its current duty on imported beef over the next six years from 50 percent to 38.5 percent. This reduction, which amounts to less than 2 percent a year, pales by comparison to a reduction of 10 percent in 1992 and yet another 10 percent reduction in 1993.

The potential for U.S. beef exports to Japan is virtually untapped with per capita beef consumption of less than 20 pounds. Prior to the beef liberalization agreement with Japan in 1988, duties on imported beef were pegged at 25 percent. Given the ever-widening U.S. trade deficit with Japan, we see an opportunity for the Japanese to make more significant reductions in beef import tariffs without disrupting the market.

In Korea, the agreement pushes back the previously agreed to date for liberalizing the Korean beef market from 1997 to 2000. During the implementation period in Korea, the beef import quota will increase from 106,000 metric tons to 225,000 metric tons; the current import fee or surcharge of 100 percent will be phased out; and U.S. suppliers will be able to sell more beef directly to an expanding circle of end-users in Korea. Each of these points represents a positive step in trade with Korea, but the rate of liberalization in this important market is much slower than the actual market conditions warrant.

Thanks to the North American Free Trade Agreement, access to Mexico and Canada for U.S. beef and also U.S. pork will be unaffected by the GATT. I should add, however, that reductions in export subsidies in the European Union are expected to slow production and make it more difficult for Europe to compete in Mexico and other markets. Moreover, the GATT now prevents the European Union from exporting subsidized beef to new markets in the Pacific Rim, including Japan.

In contrast to beef, the American pork industry experienced more significant gains in market access, principally in Japan and the European Union. Sixty-three percent of total U.S. pork exports last year went to the Japanese market. Despite the size and significance of the Japanese market to our pork industry, a variable levy system has been used to effectively increase the cost of imported pork and restrict access.

Over the six-year implementation period, Japan has agreed to reduce its variable levy on pork imports by 29 percent. Particularly encouraging is the fact that most of this reduction, 20 percent, will come in the first year. These reductions will unquestionably help the American pork industry compete with Taiwan, which has the advantage of proximity, and the European Union which historically spends in excess of \$50 million a year subsidizing pork trade to Japan.

I would add, however, that provisions to protect the Japanese market against surges in beef and pork imports may become trade restrictive under aggressive growth scenarios. Under the GATT, when imports reach 119 percent of the previous year's level, the duty reverts back to the original level. Many in the Japanese trade agree that a level of 130 to 135 percent would be more suitable.

The other notable development for pork in the European Union, was that a pork import quota was established for 75,000 metric tons. In 1993, U.S. pork exports to the European Union totaled 1,500 metric tons. Once again, while the new quota on pork is positive, it pales by comparison to the amount of pork the European Union would be required to import were it not for the aggregation of meat import figures allowed under the GATT. Without aggregating beef and pork imports, the European Union would have been required to open its pork market in 1995 to imports of 355,000 metric tons.

Mr. Chairman, I have touched on a few of the major elements of the agreement which will impact red meat trade. Of utmost concern to the red meat industry now, however, is where we go from here. The GATT agreement moves us in the direction of a more level playing field, but the fact remains that the field is not level, nor will it be level at any time in the foreseeable future.

U.S. red meat exports hit a record \$3.1 billion in 1993, up 260 percent in just the past 10 years. Our success in foreign markets can be attributed to a number of factors--greater access to key markets, the quality of our products and major shifts in consumption patterns from cereal-based proteins to higher quality proteins such as those found in red meat. But none of these factors, either alone or in combination, could have delivered anywhere near the same results without support from USDA export programs.

As a producer, I am deeply concerned about the growing lack of support for agricultural export programs in this country. The future of American agriculture and the red meat industry is in the global market, not the domestic market. With the GATT and NAFTA in hand, now is the time to pursue foreign markets more aggressively than ever. To ease up now is to concede market share to Australia, Europe, New Zealand and others.

As fierce as the competition is now, it is sure to intensify as the GATT opens more doors to trade here at home and abroad. We also have every expectation that as the European Union and others reduce their subsidy levels as required by GATT, their investments in GATT-legal marketing activities will grow.

These GATT-legal or "Green Box" programs, such as USDA's Foreign Market Development Program and the Market Promotion Program, are critical to American agriculture and the U.S. economy. The impact of value-added agricultural exports on rural America and the entire country is tremendous. A recent study at the University of Northern Colorado concluded that U.S. red meat exports alone account for more than 200,000 jobs in this country and affect more than 100 different industry sectors.

In summary, Mr. Chairman, I would stress that the details of the GATT agreement are not so important today as how we respond to what is sure to be a far more competitive trade environment. On behalf of the U.S. Meat Export Federation, we ask for this Committee's support of the new GATT agreement. At the same time and of equal importance, we urge your support for full funding of USDA, MPP and FMD programs. In the final analysis, these programs will weigh heavily in determining whether or not the Uruguay Round was a good agreement for American agriculture.

Thank you

Before the
 COMMITTEE ON AGRICULTURE
 U.S. HOUSE OF REPRESENTATIVES
 April 20, 1994

Testimony of

Bobby F. McKown
 Executive Vice President
 FLORIDA CITRUS MUTUAL
 Lakeland, FL

Regarding the Likely Impact of
 the Uruguay Round GATT Agreement
 on the U.S. Citrus Industry

Mr. Chairman and members of the Committee, I am Bobby F. McKown, Executive Vice President of Florida Citrus Mutual. FCM represents more than 90% of the Florida growers of citrus fruit for processing, and a large proportion of all U.S. growers of citrus fruit for fresh consumption. I am pleased to appear before you today to offer our comments on the likely effects of the GATT Uruguay Round Agreements on U.S. Agriculture and the citrus industry in particular.

Mr. Chairman, this Committee has taken a leading role throughout the many years of negotiations which led to the historic agreement signed last week in Marrakesh. You have sought diligently to provide the forum for American Agriculture to voice its concerns about our trading arrangements, and to formulate the strategies which will keep us competitive into the Twenty-First

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Century. I believe the twin goals of maintaining a strong agricultural base domestically and enhanced competitiveness abroad have been met in the Uruguay Round Agreement, and the U.S. Trade negotiators and this Committee are to be commended for their efforts.

As with any trade agreement, however, the promise contained in the text can only be realized through careful and rational implementation, enforcement and review. In addition, the continued soundness of our import-sensitive agricultural commodity sectors should not be sacrificed at the altar of export enhancement. Balance is necessary, and we urge your continued involvement in these areas as the implementing legislation is developed.

The Uruguay Round Agreement will reduce U.S. tariffs on citrus juice and fresh citrus fruit by approximately 15%. We believe this to be the maximum possible level of tariff reduction, given the many artificial advantages which have been available to our competitors around the world over the past several years, and which have been confirmed in investigations by the U.S. International Trade Commission. Nonetheless, the USDA's Report on the Effects of the Uruguay Round projects an increase of 2% in gross revenue to the U.S. citrus industry because of higher prices and higher production. The Report adopts uncritically the baseline assumption that the U.S. will be a net exporter in the future and therefore, tariff reductions will not affect price.

We know this Committee will not be so easily deluded. The U.S. price for citrus juice is not a function of static

circumstances. Most importantly, the NAFTA resulted in a substantial tariff reduction for imports from a government-supported industry in a major supplying country -- Mexico. Other foreign suppliers to the United States market will adjust prices accordingly to seek to match the lowest denominator, regardless of the MFN tariff rate in effect under the GATT Agreement. It was precisely for that reason that the price-based tariff snapback under the NAFTA was so critical to our industry's future health. The reality is that prices for imports from even larger supplying countries, such as Brazil, which are supposedly affected by the GATT tariff rate, are actually driven downward more by preferential tariff rates for other suppliers, and by factors such as government support policies and transient weather conditions. A 15% tariff reduction, under this complex of interrelated circumstances, is extremely liberal, and must be met by re-doubled efforts of our industry to market niche products abroad.

With respect to export opportunities, we are encouraged to see some reductions in citrus tariff rates of other consuming countries. Again, however, we must not overestimate the value of those reductions. The low commodity pricing for imported juice which we see in this market prevails elsewhere around the world, and we must compete there on terms which are more easily met by our Brazilian competitors. The U.S. citrus industry has undertaken to promote specialty products abroad based on consumer identification with Florida quality; tariff reductions in the European Community and quota elimination in Japan will help these efforts.

One area of particular concern to our industry was in the U.S.-E.U. negotiations leading to the Agricultural Agreement and its effects on internal E.C. supports for certain feed products. As an exporter of citrus feed pellets to the E.C. member states, the U.S. industry opposed any proposal to re-balance E.C. support programs by increasing the bound duty free tariff rate on citrus feed. Our understanding is that, under the Agriculture Agreement Guidelines on Calculation of Tariff Equivalents, the E.U. tariff rate on citrus feed will remain at that previously bound level. We urge the Committee to monitor this aspect of implementation as well, and voice its objection to any departure from the Tariff Equivalents rules.

One of the most significant positive aspects of the Uruguay Round Agreement is the establishment of improved international standards for the application of domestic phytosanitary rules which affect trade. The citrus industry strongly supports these international rules, the uniform application of which is critical to consumer health and safety, citrus tree health, and the maintenance of a wholesome food supply. Strict adherence to these rules by our trading partners is also important in preventing the abuse of phytosanitary regulations which are devoid of scientific rationale, solely to gain a competitive or protective advantage. We have faced such abuses in foreign markets in recent years, especially with respect to fresh fruit. The U.S. must closely monitor the application of the Sanitary and Phytosanitary Measures Agreement by all parties under the WTO.

The Agreement authorizes the Customs Cooperation Council to develop harmonized, non-preferential rules of origin, to be applied by all WTO members. Since tariffs are important in ensuring the health of the industry in the domestic market, we support the development of rules which prevent transshipment and circumvention by shippers who seek to gain an artificial tariff or marketing advantage in the U.S. market, or to avoid antidumping and other corrective measures. We support the international adoption of the NAFTA rule of origin with respect to citrus and citrus products, and a requirement that origin be conferred only upon citrus which is wholly the product of the country involved. This will prevent injury to the industry and confusion to consumers, who have a right to know the origin of all agricultural products they consume.

The Agreements on Subsidies and Countervailing Measures, and on Antidumping Measures, are likewise important to maintaining fair pricing in the marketplace. The U.S. citrus industry has relied upon U.S. enforcement of AD and CVD measures in the past to counter the effects of injurious subsidies and unfair price cutting.

Under the GATT Subsidies Agreement, certain agricultural subsidies will be treated as non-countervailable, if they meet the requirements of Domestic Support listed in Annex 2 to the Agriculture Agreement. We see considerable potential for abuse in this area, where foreign export subsidies are crafted to qualify nominally as "domestic support" programs under Annex 2, only to avoid anti-subsidy relief. Modification of our countervailing duty statute must prevent such potential manipulation.

The Antidumping Agreement imposes additional burdens on U.S. agricultural industries seeking to avoid unfair pricing, by requiring that a new material injury investigation be initiated every five years after an antidumping order is in effect. While it is reasonable to require a finding of injury, it may not be necessary to require a full-blown and costly review, especially after the industry has already expended substantial resources in seeking the initial relief. Options can and should be provided for in the implementing legislation.

In addition, the legal standing requirements under both the Subsidies and Antidumping Agreements should not be interpreted in such a manner as to impose barriers to agricultural industries consisting of hundreds or thousands of small and medium-sized producers.

Finally, the Budget Act requires that increased U.S. Treasury revenues and/or cost reductions be developed to offset the calculated tariff reductions of the GATT Agreement. Among the proposals we have heard is the reduction of Agricultural Program expenditures by billions of dollars. The citrus industry strongly urges Congress to impose no greater than a fair share of such burden on U.S. agriculture. The great fallacy of this debate is that the revenue reduction estimates -- the so-called "scoring" of implementation legislation -- does not truly account for the dynamic effects of expanded U.S. sales and jobs, and thus, enhanced U.S. Treasury revenue. If the Uruguay Round Agreement will truly result in the growth of new U.S. business activity and income, as

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Democratic and Republican Administrations alike have concluded, it seems only fair to acknowledge that growth in the revenue-offset calculations. Realistically, the citrus industry urges that no more than \$800 million in offsetting requirements be attributed to U.S. Agriculture. Furthermore, not all of that amount should be reflected in program reductions, which would simply shift the benefits of one program for those of another. This would be contrary to the assurances of successive U.S. Trade Representatives since the beginning of these negotiations, that no sector would be traded off against another.

We thank the Committee for its efforts to this point, and we urge your continuing active participation in this crucial phase of implementation.

I would be pleased to respond to your questions.

TESTIMONY OF LARRY MITCHELL, DIRECTOR OF GOVERNMENT RELATIONS
NATIONAL FARMERS UNION
ON THE URUGUAY ROUND UNDER THE GENERAL AGREEMENT ON TARIFFS AND TRADE
BEFORE THE HOUSE AGRICULTURE COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
APRIL 20, 1994

Thank you Mr. Chairman and members of this committee. I am Larry Mitchell, Director of Government Relations for National Farmers Union (NFU). I appreciate your holding this hearing to listen to our assessment of what the problems are in regard to The Uruguay Round under the General Agreement on Tariffs and Trade (GATT).

NFU's position on the The Uruguay Round can best be summed up in the first paragraph of a special order of business adopted by our delegates last month in Fargo, N.D. which states, "We, the delegates of the 92nd Annual National Farmers Union Convention, dedicate ourselves and our organization to defeat the proposed Uruguay Round of the GATT. We believe the proposed GATT is fundamentally flawed and must be rejected." (see attachment #1)

American farmers today live and sell their products in a global food and agricultural economy. The prices they receive are dependent to an important degree upon what their commodities will bring in world trade. Such prices, in turn, are destined to be weak unless there are cooperative efforts among nations to maintain prices for raw commodities at fair levels and provide for orderly conduct of commerce.

Farmers must have access to world markets if they are to maintain their productive capacity. However, we recognize that totally free trade is a myth, and would be undesirable even if it were possible. We support negotiations toward fair terms of trade, to eliminate such practices as dumping surpluses at firesale prices.

The National Farmers Union recognizes that international trade agreements when properly crafted can be useful vehicles to lessen world trade tensions, increase development opportunities and economic growth rates and increase trade in goods and services for the betterment of humankind as a whole.

The converse side, however, is that poorly crafted international trade agreements potentially could heighten trade tensions, do serious damage to economies already in place and lower

living standards of people living in the countries involved. We believe that the agreement signed in Marakesh last week is such an agreement and we urge a vote of disapproval by Congress.

What is wrong with GATT?

The biggest problems facing U.S. farmers in the agreement are:

1. complete elimination of import control laws, such as Section 22 and the Meat Import Act;
2. mandated minimum imports of 5 percent of domestic consumption for every food;
3. mandated reduction in some domestic farm programs;
4. weakening domestic food safety laws by setting ceilings on food safety regulations, also known as harmonization. This is a threat to consumer safety as well as a threat to consumer confidence in the food supply which could result in lower consumption of some products whether they are imported or domestically grown; and
5. reductions in federal revenues due to reduction and removal of existing U.S. import tariffs. This will result in federal program cuts, including agriculture programs.

The last of these seems to be the most pressing problem at this time. We all realize that the federal budget is getting tighter every year. It must be an alphabetical thing, because it seems that agriculture gets cut first and deepest. But to mandate cuts in farm program spending because of GATT is completely contrary to the Administration's repeated assurances to agriculture throughout the negotiations. National Farmers Union, along with over twenty other farmer and commodity organizations, last week reminded President Clinton of this fact in a letter (see attachment #2). Signatories of the letter included a full spectrum of the agriculture community from the very politically conservative to the politically progressive. We affirmed our unity in our closing remark which stated, "We would find it very difficult to support any proposed implementing legislation which resulted in a disproportionate share of the cost of GATT being placed on U.S. agriculture."

What should have been included in GATT?

In order to move to a more constructive note, allow me to explain that we have long stated that a GATT deal that conserved the interests of American farmers should include the following six points:

1. seek to eliminate and outlaw the use of export subsidies and other export dumping practices on agricultural products. The old GATT rules (Article VI) banned the sale of goods overseas at prices below the cost of production, which GATT states must include the cost of marketing and a reasonable profit. This rule is rarely enforced in agriculture. It needs to be clarified to describe what should be included in the full cost of production, and it should be enforced;
2. recognize the right of sovereign countries to develop their own domestic food policies, using tools such as our Section 22;
3. recognize the right of countries to develop and maintain domestic inventory management and/or basic domestic food security programs under Article XI of GATT;
4. establish guidelines for the establishment and maintenance of world food reserve stocks with rules as to their release in times of scarcity;
5. recognize the need for some developing countries to be allowed exceptions from some GATT rules when the overall impact of the exemptions is to spur economic development and their greater integration into the world trading partnership; and,
6. seek greater harmonization of health and sanitation standards to the highest possible level while allowing countries to deviate from the international standards when the country can show its own standard was put in place for legitimate health and safety reasons. GATT must not be allowed to lower the safety standards of American food. Those standards must continue. To allow those standards to be lowered puts American consumers, American farmers and American sovereignty at risk.

Unfortunately, the currently proposed GATT fails to meet any of these criteria and, in fact, includes provisions that will set American farmers back even further.

Other difficulties with GATT

To expand even further, allow me to point out that the new GATT proposal will:

1. lock in major advantages to one region of the world over the U.S. and other countries in its proposed cuts in export subsidy levels;
2. severely restrict the ability of the U.S. Congress or other countries to use a wide variety of domestic program tools to foster the farm and rural economy;

3. result in lower farm prices and incomes to many U.S. producers through domestic farm program cuts and increased imports from the loss of Section 22 protections and their conversion to tariffs scheduled for further reductions;
4. likely lead to a lowering of U.S. food safety, health, and environmental standards as higher U.S. standards are challenged before the GATT or any other international trade organization which succeeds GATT in existence; and,
5. result in a loss of U.S. sovereignty. The Farmers Union is extremely concerned by the proposal to create a new World Trade Organization (WTO) to implement and enforce the new rules. The WTO will unduly interfere in the domestic policy affairs of our national, state and local governments. We also are concerned that the burden of proof in the WTO dispute process is flawed, requiring any country which has higher standards than those set by international agencies to defend their right to maintain their own laws.

Based on these criteria, the final GATT agreement reflects an undemocratic closed-door process and is fundamentally flawed. It must be renegotiated in a more open, democratic manner, including the inclusion of genuine representatives of family farmers at the negotiation table as well as the United States Congress as required by the Constitution.

The farm policies of recent years have helped created a food economy that has allowed the food processing and exporting companies to reap record profits in cheap grain policies, giving them the financial base to further increase their economic power and concentration in not only grains, but meats. The grain trade giants have become one of the most profitable sectors of the national economy, primarily at the expense of family farmers and rural communities. The GATT, as crafted by the grain trade, gives traders further economic advantage and power over family farmers on a worldwide basis while diminishing democratic process. The impending GATT guarantees this trend will accelerate, culminating in a system that threatens family farms, food security, sovereignty and democracy.

Section 22

For the short term, we will continue to push the administration for section 22 relief from the flood of Canadian grain. We understand that if GATT is approved by this Congress,

section 22 sanctions initiated after last December's initialing of GATT will no longer be allowed following next year's implementation of GATT. But we feel it is in the best interest to use section 22 as long as possible.

Article XXVIII

On this coming Friday, the Administration is scheduled to request Article XXVIII sanctions from GATT. This action will require authorizing legislation from Congress. Therefore, for the longer term, we urge Congress to pass the authorizing legislation for Article XXVIII.

Conclusion

It is incumbent upon Congress to find methods of protecting the security of American agriculture. Congress must consider bold new steps and bold new programs to ensure that American farmers are not victims of GATT as they have been under previous agreements. We urge Congress to vote NO on the GATT implementing legislation and to pass legislation authorizing Article XXVIII of GATT for Canadian wheat & barley.

Thank you for the time and interest you have invested in today's hearing. National Farmers Union stands ready to assist you in making international trade policies fair for family farm agriculture.

(Attachments follow:)



**NATIONAL
FARMERS
UNION**

**SPECIAL ORDER OF BUSINESS
GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)**

Adopted by National Farmers Union
March 5, 1994

We, the delegates of the 92nd Annual National Farmers Union Convention, dedicate ourselves and our organization to defeat the proposed Uruguay Round of the General Agreement on Tariffs and Trade (GATT). We believe the proposed GATT is fundamentally flawed and must be rejected.

We continue to believe in the value and need for constructive and fair trade agreements, but U.S. trade negotiators failed in the stated goal of leveling the playing field for agricultural trade. They simply locked in the current trade inequities in this GATT.

This GATT Treaty was negotiated in a shroud of secrecy and did not allow for the participation of family farmers or their representatives. We oppose this GATT for the following reasons:

1. Loss of Section 22 - GATT eliminates Section 22 authority which effectively stabilizes and preserves our domestic food supply. Eliminating Section 22 will increase export dumping which will accelerate the erosion of the economic base of rural communities by depressing domestic commodity prices and undermining the integrity of publicly enacted food security programs.
2. Emergence of a World Trade Organization - The current GATT will be replaced by a new World Trade Organization (WTO) that will assume much greater authority and control. The WTO will undermine the very principles of democracy. It destroys citizens' roles in trade policy while giving exporting multi-national companies greater operating advantage in establishing and controlling the rules of trade.
3. Jeopardizes food safety - GATT will threaten the safety of our food supply by diminishing our country's ability to set our own standards.
4. Threatens sovereignty - The WTO will not only become the primary policy setting body for trade, but will also invade other policy areas governed by our local, state and national governments. Under the guise of international deregulation, the WTO will interfere with our ability to determine our own food safety standards, protect our workers, preserve our natural resources, and design and administer our own farm programs. The WTO is a direct assault on our sovereignty.

The proposed GATT rules would threaten and compromise individual nations' ability to develop and implement their own domestic policies, including farm programs. For 92 years, the National Farmers Union has led the fight for family farmers and strong rural communities. We must reject this GATT and continue to fight for our right to chart our own course, set our own standards, and create the future of our choice.

April 13, 1994

The President
The White House
Washington, DC 20500

Dear Mr. President:

There has been considerable debate recently over the fact that the new GATT agreement may lead to as much as \$14-18 billion in lower revenues due to reductions in existing U.S. tariff levels. Such estimates are highly subjective and fail to consider the potential for increased revenues due to expanding trade and increased economic activity which help create jobs and an expanded tax base.

Nevertheless, it is our understanding the Administration has under consideration various proposals, including requiring significant reductions in current farm and related programs to help offset a major portion of such revenue losses. This is despite the fact that revenue losses due to lower tariffs on agricultural imports account for only about 5 percent or less of the estimated total of \$14-18 billion.

More disturbing, however, is the fact that such a requirement would be completely contrary to the Administration's repeated assurances to agriculture throughout the negotiations relating to GATT.

In meeting after meeting, we were repeatedly assured that the new GATT agreement would not require any further reduction in domestic income and price-support programs. At the same time, the Administration consistently emphasized its commitment to fully and aggressively utilize the full range of authorities under GATT to maintain U.S. agriculture's ability to remain competitive in the international marketplace.

This is especially important since the GATT agreement reduces but does not eliminate the use of export subsidies. Further, it allows countries to maintain and increase their support for certain non-trade distorting programs which are categorized as "green box" activities. These include market development and promotion, export credit, food aid and other related programs. The Administration, however, has already proposed that many of these programs be significantly reduced as part of its FY 1995 budget proposal submitted to Congress.

Clearly, our foreign competitors can be expected to utilize every available authority under the new GATT agreement, including the use of export subsidies, as well as shifting increasing resources into so-call green box initiatives, to maintain and increase their share of the world market. Without a similar commitment on the part of the U.S. government, U.S. agriculture will be at a significant disadvantage.

For these reasons, we would like to take this opportunity to urge the following actions. First, funding should be maintained for both domestic and international programs relating to agriculture as allowed under GATT. Second, any funds subject to reduction under GATT (such as those used for direct export subsidies) should be redirected and made available as allowed for various green box programs as previously outlined.

Unless these concerns are addressed, it is hard to envision how U.S. agriculture stands to gain as a result of the new GATT agreement. Not only would the nation's farmers and ranchers be adversely affected, but so would many of the nearly one million Americans whose jobs and livelihoods are directly dependent on agriculture-related exports.

Accordingly, we would find it very difficult to support any proposed implementing legislation which resulted in a disproportionate share of the "cost" of GATT being placed on U.S. agriculture, or in its being unable to remain viable and competitive in the international marketplace.

We appreciate this opportunity to share our concerns, and respectfully request your full review of such proposals consistent with the Administration's past assurances and commitments to U.S. Agriculture.

Sincerely,

American Farm Bureau Federation
American Meat Institute
American Sheep Industry Association
American Soybean Association
Coalition For Food Aid
National Association of State Departments of Agriculture
National Association of Wheat Growers
National Barley Growers Association
National Cattlemen's Association
National Corn Growers Association
National Cotton Council
National Council of Farmer Cooperatives
National Farmers Union
National Grange
National Milk Producers Federation
National Pork Producers Council
National Potato Council
National Sunflower Association
National Turkey Federation
Rice Millers Association
United Fresh Fruit and Vegetable Association
U.S. Rice Producers Group

Testimony on the Uruguay Round Agricultural Agreement

House Agriculture Committee

Washington, D.C.
April 20, 1994

Carol L. Brookins, President
World Perspectives, Inc.
Washington, D.C.

Mr. Chairman, Members of the Committee. I want to thank you for the privilege of appearing before you today to assess the implications of the Uruguay Round Agricultural Agreement for U.S. agriculture.

I am founder and President of World Perspectives, Incorporated—a Washington-based analytical and consulting company that focuses on the political, economic and trade factors affecting agricultural markets and the global food system. World Perspectives works with private and public sector enterprises and organizations around the world. I have been deeply engaged in the issue of agricultural trade policy development under the Uruguay Round from the inception of the negotiations.

For the record, I am not an agricultural economist by training, but an historian. Taking this view of the world, I believe it is necessary to put the Uruguay Round achievements into a broader trade perspective than the immediate trade benefits accruing over the next six years to U.S. farmers and agribusiness.

INTRODUCTION

The Uruguay Round results should be assessed both in the context of what we have done to liberalize world agricultural markets and what the trading world would be like if we had not reached this historic accord.

As an historian, I'd like to point out that 20 years ago—in 1974—the last trade round began (the Tokyo Round). At that time the starting U.S. negotiating position on agriculture contained two major proposals:

- Elimination of all agricultural export subsidies, and
- Conversion of all non-tariff barriers to bound tariffs.

So, Mr. Chairman, the Uruguay Round negotiations were really unfinished business for U.S. agricultural interests. Just think what the trading world and American agriculture would have experienced between 1974 and 1994 if we had achieved those results!

—We would not have had the devastating impact of massive European Community (EC) export subsidies swamping world markets with huge surpluses of grains, dairy and livestock. Remember that the EC was not a net exporter of grains and other key agricultural products in 1974.

Once the EC got the "green light" under the Tokyo Round, officials pursued an aggressive "beggar thy neighbor" production and export policy.

—We would not have been forced to finance our own expensive export subsidy war beginning in 1985 after our own export markets and world prices collapsed. U.S. exports fell in half prior to 1985 with a devastating effect on farm income and rural families. The U.S. Treasury absorbed the burden through record high farm program payments and export subsidies to try to "regain" lost markets or at least "maintain" our position in world trade competition.

—We would not have been negotiating tariffication in the Uruguay Round, but would have been reducing high tariffs further. Twenty years ago we would have eliminated all the highly restrictive non-tariff practices like import bans and discriminatory quotas and would have been competing for twenty years under transparent tariff-only trade barriers.

This history is important to remember as the U.S. agricultural community assesses the costs and benefits of the Uruguay Round, because the trade issues at stake have an impact far beyond immediate export gains for U.S. farmers.

ASSESSMENT OF THE URUGUAY ROUND AGRICULTURAL AGREEMENT

I believe that the Uruguay Round can be called both historic and revolutionary in setting a new basis for trade competition in agriculture moving into a new century.

U.S. competitiveness in world markets will be enhanced by the commitments forged, and the U.S. economy will benefit from increased agricultural trade.

In assessing the value of the Uruguay Round Agricultural Agreement, I believe three basic questions are worth considering:

What was accomplished?

What wasn't achieved?

What does it all mean?

First, what was accomplished?

All past agricultural trade negotiations had primarily been deals on specific product trade "requests and offers." The Uruguay Round agricultural agreement is revolutionary in both a short and long-term policy impact.

It establishes rules in the world trading system governing all forms of domestic agricultural subsidies, export subsidies and import barriers; and it begins the process of rolling back those subsidies and opening markets.

These reforms set agricultural markets and trade under an entirely new form of international disciplines:

—Without exception, all existing non-tariff barriers must be converted to bound tariffs. Import protection is only allowed under bound tariffs and these tariffs must be reduced by an average 36 percent (with no product line less than 15 percent) over six years for developed countries (or 24 percent and no less than 10 percent over 10 years for developing countries).

—Without exception, every agricultural product must be allowed some level of minimum import access to domestic markets under low or minimal tariff rates provided under a tariff rate quota system.

—Without exception, all domestic agricultural subsidies tied to production of commodities must be reduced under an aggregate measurement of support (AMS) formula. In general, any increased expenditures to support agriculture cannot be tied to current crop or livestock production.

—Without exception, all existing direct agricultural export subsidies—both in product volume and expenditures—must be reduced significantly. No new products can be subsidized in the future.

—Without exception, regulations restricting imports due to food, plant and animal health concerns can be challenged on the basis of sound science.

Second, what wasn't achieved?

Some critics charge that the agricultural agreement fell far short of the initial U.S. objective of "eliminating" all trade distortive subsidies and barriers in ten years.

No one realistically expected the "zero option" to be achieved. After all, agricultural subsidies in industrial countries alone total close to \$350 billion annually. These subsidies and high walls of protection have been building for more than 40 years; tearing them down too quickly or sharply would have a devastating effect on agricultural economies around the world.

In the U.S. case specifically, while grains might have benefited from a far swifter and bigger opening of markets, other sensitive U.S. commodities like peanuts, dairy and sugar would never have accepted a bigger immediate access. So, the reduction achieved—while less than optimum—was politically achievable, while still fulfilling the stated objective of the round: progressive and substantial reduction in agricultural support and protection over an agreed time period.

Another criticism is that the U.S. team "caved" in by rolling back from the original Blair House commitment to "front load" export subsidy cuts in the first year of implementation. This is a fair challenge, but three points are worth remembering:

—The result of Blair House remains unchanged; the only change is that instead of dropping export subsidies off a precipice, they are being rolled more gradually down a slope to the same base level at the end of six years;

—The front-loaded provision of export subsidy cuts was the only agricultural trade adjustment commitment that would have had an immediate "shock" affect on trade impact, in contrast to the gradual phase-in of other measures; and

—The agreement not to front load benefits a number of agricultural commodity exporters including vegetable oils, dairy, and, in the views of some producers, wheat.

Third, what does it all mean?

Expanding world markets and bringing agricultural trade under fair world trade rules is more important today to U.S. agriculture than ever before in recent history.

We know only too well that the U.S. is undergoing severe budget constraints in support of agriculture. At the same time, enormous political and economic changes are transforming the world trading system and agricultural marketplace from the old ways of doing business in the past twenty years.

This makes global trade reform in agriculture vitally important to America, because:

—The U.S. will be forced to further substantially reduce the subsidies it gives to agriculture due to tight budget constraints. Without a Uruguay Round agreement, other countries could be expanding their subsidies while the U.S. is forced into a very uncompetitive trade position.

—The Soviet Union which was the market for as much as 30 percent of all world grain trade for twenty years is no longer in existence. Some states of the former Soviet Union (FSU) may in fact become exporters in a matter of years.

—The states of the FSU and China will become GATT members—or members in the new World Trade Organization (WTO) which will be the successor to the GATT when the Uruguay Round agreement enters into force. No longer do monopoly buyers or sellers control agricultural trade in these important markets.

—The European Union (EU)—the successor name to the European Community—will bring in under its policies and/or into membership the other nation states of the European Continent. The EU will be expanding formally by four countries in 1995; additionally, the EU has offered to negotiate eventual free trade agreements with East European and North African countries.

This means that the Common Agricultural Policy (CAP) will apply to possibly twice as many countries by the end of the twentieth century. Transparent border protection and lowering fixed tariffs will give U.S. exporters the opportunity to compete in a much bigger EU market; export subsidy disciplines will not allow a far greater EU to further destroy our competitive trade position.

—The fastest growing developing countries and markets for agricultural commodities, particularly in the Pacific Rim, are now becoming rich enough to start supporting their farmers. Some have already begun to establish policies like the Europeans and Japanese that limit trade and encourage domestic production well above world market price levels. These are the major growth markets for our future exports.

BENEFITS TO U.S. AGRICULTURE

The Uruguay Round results will not lead to dramatic shifts in markets over the short-term—with the exception of rice trade where imports had been banned into key Asian markets. However, the rules being implemented will change the course of agricultural trade and investment flows well into the twenty-first century.

—Any growth in trade volumes once the agreement enters into force in mid-1995 will be unsubsidized competition. This means that the 21 percent volume cut in export subsidy volumes becomes far more significant in the context of trade growth.

—The European "juggernaut" of subsidized export competition that had rolled across the world has been stopped in its tracks; retreat will be gradual, but it is reversing the course of 20 years of trade damage.

—Substantial new access commitments negotiated to move such products as poultry, beef, and pork products into many key growth markets will expand U.S. consumption of grains, in addition to the market access gains in direct grain trade.

—Processed and high-value product trade growth will increase U.S. employment. It will strengthen the U.S. food processing industry which already scores a higher margin of productivity lead over any other industrial sector vs Germany and Japan.

—Minimum access requirements on every farm and food product will open the door to developing market niches and consumer demand for specific agricultural and food products.

—Developing countries will be required to base their own farm support policies on more general subsidies, so they will not be able to institutionalize high levels of farm protection and distorted production incentives as they become rich enough to support their farmers.

—Future trade negotiations will be battles over "how far" to cut tariffs and export subsidies, not "whether" they could be cut.

IMPLEMENTATION AND FUTURE ISSUES

There is no doubt that U.S. agriculture will benefit from the Uruguay Round's agreement. However, every country's bilateral will have to be examined to pinpoint the full range of market opportunities and remaining barriers, as they implement their commitments under the agreement.

Moreover, trade liberalization is not an "event" but a long and continuous process. A new trade agreement is only the starting point for implementing business practices and governmental regulations that set the real ground rules for market competition.

But we now have the tools under newly strengthened GATT rules and accelerated dispute settlement procedures to challenge unfair trade practices in other countries. This gives our agricultural producers another tremendous benefit in ensuring that trade in world markets is both fair and open.

There are outstanding questions and concerns:

—We did convert all non-tariff barriers to tariffs, but out of quota tariffs on tariffed products, and newly bound tariffs of many developing countries, remain very high. This will certainly cap potential trade growth in many cases over the next six years.

—State trading was not controlled or reformed under the Uruguay Round. This is another critical barrier to fair competition that will have to be tackled to provide meaningful trade opportunities. I hope that the Clinton Administration will put agriculture high on its agenda as it pursues future GATT negotiations regulating competition policy.

—The GATT Committee on Agriculture will be monitoring implementation of the Uruguay Round commitments. The U.S. must be deeply engaged in pursuing a role for the Committee that ensures that commitments are not being undermined through regulatory or other loopholes.

IMPLEMENTATION AND U.S. COMPETITIVENESS IN AGRICULTURAL TRADE

The Uruguay Round achievement and agreement is only the first major step to enhance the U.S. competitive position in global agricultural markets moving into the 21st century. U.S. legislation implementing the Uruguay Round agreement and other agricultural policies need to fully support a growing U.S. position in world food and agricultural trade and markets.

I would like to make 3 specific recommendations:

1. I know that there is a lot of concern today by agricultural interest groups that there will be cuts in farm programs in order to offset the loss in revenues from tariff cuts as a result of the Uruguay Round.

Agricultural programs should not be unjustly reduced to pay the cost of perceived losses to the federal Treasury. A budget waiver may be in line where revenue losses are concerned due to tariff cuts, because the net increase to the Treasury from higher levels of trade are expected by economists to more than offset those "costs."

At the same time, the Uruguay Round agricultural agreement may be an important catalyst in assessing our existing farm programs to see if they will maximize our production and marketing flexibility to meet growing export demand in the decades ahead.

It is worth recalling that our current farm programs are really 60 years old and were instituted at a time of negligible world trade and concern over domestic market management.

Other countries are moving toward innovative farm policies, such as Mexico's shift from commodity to acreage supports, or Canada's Insurance and "IRA" type programs. We should study these and other approaches in the context of domestic support disciplines and market potentials.

2. The Export Enhancement Program (EEP) is now changing from a trade policy "weapon" to bring other countries to the negotiating table to a limited but officially mandated form of export competition over the next six years. During the six-year implementation period, export subsidies will drop substantially—an estimated 40 percent from the base period (1986-90) level in the case of wheat. This means that subsidized exports will become a "scarce commodity" to buyers and it will change the context of export competition, as buyers compete for some share of the subsidized pie.

EEP should be transformed into a viable world marketing tool, rather than merely a targeted weapon. We need to look at changing the operative structure of our EEP to make it more commercially responsive and competitive to changing market conditions, and to enable commercial exporters to maximize the volume of U.S. trade while minimizing the per unit subsidy cost.

3. The Market Promotion Program (MPP) has a new and special role to play as a result of the Uruguay Round. Minimum market access under tariffication means that for a number of agricultural products, imports will be allowed for the first time. Although the quantities in many cases will be very small, these early stage imports will set consumer preference and confidence in U.S. commodities/products.

Minimum access also means that there will be fierce global competition for those small levels of imports, so getting a foothold in markets will be critically important to establishing a base for future U.S. trade performance.

Much of this market access will be occurring in countries where privatization is replacing state trading monopolies. U.S. agricultural cooperators, through the MPP, can play a key role in working with the newly privatized companies that will be the leaders in expanding their food systems and determining what products will be available in their markets.

I believe we need to develop a multi-year basis for MPP, utilizing U.S. government financing primarily as initial "seed money" in key markets. This private:public partnership in specific MPP initiatives would operate in a way that moves the private industry to full self-sufficiency and sunset for government support.

CONCLUSION

I urge the House Agriculture Committee to strongly support implementing legislation on a rapid timetable to ensure that the Uruguay Round's commitments enter into force in January 1995.

American agriculture needs the trade disciplines and trade opportunities that the Uruguay Round agreement puts into place. Without the potential for growing agricultural trade, U.S. agriculture's important contribution to the well-being of the American people will be severely harmed. Why?

Simply put, agricultural and farm product exports are the underpinning of our country's ability to sustain the highest living standards in the world at home, because agricultural exports permit U.S. farm production costs to be spread over all food produced and sold.

Americans spend less of their disposable income for food than consumers in other leading nations and this means more money for them to spend on other goods and services. So, more U.S. agricultural exports mean more U.S. jobs not only in agriculture and related industries, but throughout the economy.

U.S. domestic consumption of food is not rising; exports are critical to maintaining and expanding our farm and food production base, and fuelling growth in other sectors.

Agriculture is a winner for the U.S. We are second to none in the world in diversified farm production, marketing infrastructure and technology. Our food processing industry has a higher competitive productivity lead over German and Japan than any other U.S. manufacturing industry.

The Uruguay Round means business for U.S. agriculture. I hope that you too will conclude that this is not a time to passively stand on the sidelines in the debate over implementation, but to actively support the outcome.

Thank you.



National Family Farm Coalition

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TESTIMONY OF KATHERINE OZER, DIRECTOR
NATIONAL FAMILY FARM COALITION
BEFORE THE HOUSE AGRICULTURE COMMITTEE
ON THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)
April 20, 1994

My name is Katherine Ozer. I am the Executive Director of the National Family Farm Coalition (NFFC) which represents 39 family farm and rural advocacy organizations in 30 states. Our organization was formed in 1986 to provide both a link and a voice for family farmers in the debate over federal farm and food policy.

The implications of the GATT agreement on the future of family farmers and rural communities is devastating. Our national security can be directly threatened by the continued loss of family farmer production of a regional food supply. We are concerned about what is specified in the GATT and what will be the expectation of this Committee to change existing policies to make them "GATT-legal" or "GATT-acceptable"

Family farmers are impacted by a range of issues; the actual constraints on our existing farm programs; the range of options to change policy and the impact of consumer confidence on the safety of our food supply. What will it mean that the CODEX standards are lower than many of our standards and that the GATT

doesn't require countries with standards lower to raise them to a minimum standard?

As predictions of the budgetary cost of GATT range from \$17 billion to \$40 billion based on whether you project it over 5 years or 10 years, we are concerned about what programs will be further cut to make up the GATT shortfall or the budgetary deficit increases. Can loan rates on wheat and feedgrains be increased to make up some of the shortfall? Can we establish formulas to ensure that U.S. producers of dairy products receive a price that more closely meets their cost of production and meets domestic and international demand without creating an export-dumping program? Can we create and maintain a reserve program that protects our consumers against natural disasters?

Will there be the political will to confront the USDA economic projections that forecast increasing exports means increasing income and increased jobs? Does USDA research support the conclusion that increased exports has meant increased net farm income? Where will these new jobs be? Are they in our rural communities and will they be available for those farmers whose jobs and income are displaced by the increase to 5% of certain commodities mandated by GATT through the elimination of Section 22 provisions. Unfortunately there has been an increasing dependence on off-farm jobs as farm income has dropped. Has USDA analyzed the impact of the loss of jobs in other sectors - whether textile industries in the Southeast or other industries

that will be dislocated by NAFTA and GATT on the job availability in our rural communities? Unfortunately if these jobs disappear, the ability of many family farmers to stay on their farms will also be in further jeopardy.

What is the ability of a state to protect laws that they have enacted to protect their natural resources or to have an impact on the types of businesses or contracts that can be engaged in by the state. Will "anti-corporate" or "family-farm" laws that deal with land-use issues be in jeopardy since they imply a direct value on preserving a certain type of business. What is the impact of current state environmental laws which exceed the U.S. minimum or have been enacted to protect or promote support for products produced within that state. Does this mean that "Minnesota Grown" and "Made in Virginia" labels to encourage local marketing development and trade is being jeopardized to expand our international markets? Will organic labeling, or a rBGH-free label be considered "trade distorting" since it places a value on information that a consumer wants to know about how the specific product has been produced? Worse yet, how will the local, state, or U.S. government be able to respond to a claim that a practice this is GATT/WTO illegal? Will we as representatives of family farmers or concerned consumers be able to write or petition the WTO as we can currently with the Food and Drug Administration (FDA)? Will you as a concerned Member of Congress be able to make your voice heard? I am concerned that

our access to these decisions and decision-makers will be cut-off.

We need domestic programs and international trade agreements that enable farmers in this country to make a decent living. We urge you to investigate these issues as to how they impact your constituents and consumers of food, not just the commodity groups who see the export of the products as their goal. As an organization representing family farmers, we are very concerned about the ripple impacts of exporting our failed domestic farm policy to the rest of the world. We support trade as long as those producing the products to be traded share in the profits. Unfortunately this has not been the case during the past decade as net farm income has continued to fall.

There are many questions that must be answered. We urge the House Agriculture Committee to be questioning of the implications of the GATT agreement on every issue that is under your jurisdiction. The GATT implementing legislation and the upcoming Farm Bill are very critical to the future for family farmers in this country and for restoring economic profitability to our rural communities. We urge you not to rush into this process. I thank you for the opportunity to be part of this discussion today.

STATEMENT OF THE
AMERICAN FARM BUREAU FEDERATION ON THE
URUGUAY ROUND AGREEMENT ON AGRICULTURE
BEFORE THE HOUSE AGRICULTURE COMMITTEE

Presented by Dean R. Kleckner
President
American Farm Bureau Federation

April 20, 1994

The American Farm Bureau Federation, the nation's largest organization of farmers and ranchers, appreciates this opportunity to comment on the Uruguay Round agreement under the General Agreement on Tariffs and Trade (GATT).

The agricultural portion of the agreement covers the four major priority areas for Farm Bureau: export subsidies, import access, trade distorting internal subsidies and sanitary and phytosanitary regulations. In essence, the agreement would: (1) Require reductions in subsidized agricultural exports, 36 percent in budgetary outlays and 21 percent in volume terms over six years; (2) Require cuts in aggregate import protection by 36 percent over six years and require that all non-tariff barriers be converted to tariffs or tariff-quotas; (3) Require 20 percent reductions in some trade distorting internal supports; and (4) Establish a code to prevent the use of sanitary and phytosanitary regulations as disguised trade barriers.

Farm Bureau supports the Uruguay Round agreement but will strongly oppose any attempt to use the implementing legislation as a vehicle for making additional cuts in domestic or export programs in agriculture.

Throughout the seven years of negotiations, Farm Bureau was supportive of the basic concept embodied in the U.S. negotiating position calling for substantial and progressive worldwide reductions in trade distorting subsidies. We steadfastly opposed reductions in U.S. programs and trade measures without equivalent commitments by other countries.

If the implementing bill contains program funding reductions beyond those required under the agreement, foreign countries would not be undertaking "equivalent commitments" as required in Farm Bureau policy. More to the point, however, is the fact that our members have been told repeatedly since the so-called Blair House accord two years ago that the Uruguay Round would not require domestic U.S. farm programs to be cut any more than the substantial cuts already undertaken in the last two farm bills. If this now turns out not to be true, few in agriculture will be able to support the implementing legislation.

Farm Bureau's principal goals in the trade talks have always been to achieve a substantial cutback in the use of export subsidies and to obtain a significant opening of foreign markets. Our assessment of the proposal from the GATT is that it would partially achieve these objectives.

We recognize that this agreement represents the net result of over seven years of frustrating and often fruitless talks between countries with widely different and strongly held positions on agricultural trade. We also recognize that it probably represents an important breakthrough for the world trading system. U.S. negotiators are to be commended for their efforts to find a solution to the many trade problems in this sector.

Although the agreement fell short of our original objectives in a number of areas, it has achieved a number of "firsts" for agriculture.

For the first time, agriculture was not dropped from the negotiations at the last minute to get better deals in other areas. For the first time, agricultural trade will be governed by general GATT principles, not by a series of special exceptions. For the first time, export subsidies will be limited in both volume and budgetary terms. For the first time, import protection for agricultural products will be imposed through tariffs rather than through more restrictive quotas and other non-tariff barriers. And for the first time, Japan and Korea will allow access to their markets for U.S. rice.

More specifically, subsidized European Union (EU) exports could be reduced substantially from current levels by the year 2000. The EU currently uses export subsidies for wheat, flour, most other grains, dairy products, beef, pork, sugar, poultry and a wide range of other products. A number of U.S. export programs will also be subject to the Uruguay Round disciplines, including the Export Enhancement Program (EEP).

Non-tariff barriers, such as variable levies and quotas, will be converted to tariffs under the so-called tariffication plan. There are no exceptions, which means all non-tariff barriers will be covered, including Japan's rice prohibition, Canada's supply management quotas, the European Union's variable levies and U.S. Section 22 quotas. Canada's calculations of tariff levels for dairy and poultry products and its refusal to phase them out as required under the U.S.-Canada Free Trade Agreement and the NAFTA are major disappointments.

The U.S. is required to make no further cuts in any domestic support program, since an aggregate reduction in domestic support exceeding 20 percent has already been made in the last two farm bills.

Obtaining an agreement on the use of sanitary and phytosanitary measures to avoid their use as disguised trade barriers has been a high priority for U.S.

agriculture in these trade talks. This agreement will make it difficult for countries to reduce traditional trade barriers and simply replace them with a new health regulation.

An Agriculture Committee will be established to monitor the implementation of the commitments undertaken in the agreement, to review notifications by members of new or revised support measures and to consider any matter of concern to a participating country. This committee will operate in conjunction with the secretariat of the World Trade Organization (WTO) created under the Uruguay Round agreement.

Consultations and dispute settlement procedures will be those currently available under existing GATT articles as modified by the Uruguay Round Understanding on Rules and Procedures Governing the Settlement of Disputes. This understanding significantly strengthens the GATT dispute settlement process by establishing time limits for dispute resolutions, rights to panels and adoption of panel reports unless there is a consensus to reject a report. Currently, there is no time limit on dispute settlement actions, there is no right to a panel and any panel report can be rejected by a single country. Improving the GATT's dispute settlement procedures has been an important objective for the U.S. for some time. Some may argue that it weakens U.S. sovereignty, but nowhere in the agreement does the U.S. lose any sovereign right to make or revise its own trade or domestic laws.

Special and differential treatment will be afforded developing countries. Developing countries will be allowed 10 years to implement their commitments, which in some cases are reduced from the general Uruguay Round commitments. So-called "least developed countries" will not be obliged to undertake commitments.

Overall, the Uruguay Round will be a net plus for U.S. agricultural trade interests. Farm Bureau, along with most other agricultural organizations, will strongly support language in the implementing legislation to re-direct funds required to be cut from the Export Enhancement Program (EEP) and other restricted programs into so-called "green box" export programs, such as foreign market development and food aid. As stated earlier, Farm Bureau is not likely to support an implementing bill that forces reductions in domestic programs beyond those already made since 1985 as American agriculture's contribution to the Uruguay Round.

KEY ELEMENTS OF THE AGRICULTURAL AGREEMENT AND FARM BUREAU'S EVALUATION

The following is in no way intended to be an all-encompassing analysis of the agreement and its effect on U.S. agriculture. Given the fact that many so-

called "schedules of commitments" are only now becoming publicly available, it has been difficult to assess how countries will apply the general commitments outlined below to individual products.

GENERAL PROVISIONS:

Reforms are to begin in 1995 with the six-year implementation period ending in the year 2000. The actual date of implementation is expected to be July 1, 1995.

A "continuation clause" is contained in the agreement requiring negotiations after five years on how to continue the reform process. The clause reads, in part: "...the participants agree that the negotiations for continuing the [reform] process will be initiated one year before the end of the implementation period..." This provision represents a compromise between the European Union (EU) and the U.S. The EU had originally sought a simple review after five years, whereas the U.S. initially sought a commitment to continue the reforms almost automatically for a total of 10 years.

A limited "peace clause" is provided that will apply for nine years. Under this provision, certain domestic supports and export subsidies will be exempt from various GATT dispute settlement actions as long as they conform fully to the provisions of the Uruguay Round agreement. On the surface, the "peace" language does not appear to be objectionable, since it does not weaken any country's right to traditional dispute settlement procedures, where offending countries have abrogated the agreement. However, this clause could cause unknown problems in the future.

Preliminary evaluation:

The reforms contemplated in these general provisions should represent a positive step for international trade in agricultural products. For the most part they did not go as far as the U.S. would have preferred, but they should allow for increased understanding of obligations, improved cooperation and reduced trade conflicts between nations. Where disputes arise, the dispute settlement procedures should work faster and better to resolve them. This depends, however, on the "peace clause" not causing an unanticipated loophole allowing the use of new trade distorting measures.

EXPORT SUBSIDY DISCIPLINES:

Export subsidy expenditures are to be reduced by 36 percent over six years. The tonnage of commodities exported with subsidies will be reduced by 21 percent over the same period. The percentage reductions will be made from the level of subsidization during the 1986-1990 base period (average). The first year cuts

must start from the level of subsidization in effect during the 1991-1992 representative period. Developing countries are required to cut export subsidies by 24 percent in budgetary terms and 14 percent in tonnage terms.

Subsidy cuts must be 6 percent (or 4 percent in tonnage terms) the first year, but can be as little as 3 percent (or 1.75 percent in tonnage terms) each year thereafter as long as they reach the full 36 percent and 21 percent reductions mandated by the year 2000.

Export subsidies to be covered include direct government payments to any firm or organization contingent on export performance, the disposal of publicly owned stocks at a price below the price on the domestic market, export subsidies financed by levies on producers imposed as a result of government action, subsidies to reduce the cost of marketing (other than generally available export promotion advisory services), internal transport charges on terms more favorable than for domestic shipments and subsidies on primary products contingent on their incorporation in exported processed products.

Export credits and guarantees and food aid will continue to be subject to existing disciplines under the Food and Agriculture Organization (FAO).

Commitments on export subsidies will include undertakings not to introduce or re-introduce subsidies on commodities that did not receive subsidies during the base period. Also, commitments may be negotiated among the participants to limit or avoid subsidies on exports to specific markets or regions of the world. For example, it is our understanding that an earlier EU commitment not to introduce new subsidies on shipments into the Pacific Rim was extended in bilateral U.S.-EU negotiations.

Preliminary evaluation:

Subsidized EU exports could be reduced substantially from current levels by 2000. The effect of a 36 percent reduction in subsidy expenditures and a 21 percent reduction in actual tonnages will have to be examined, however, for each of the many commodities sold with subsidies on the world market by the EU. The EU currently uses export subsidies for wheat, flour, most other grains, dairy products, beef, pork, sugar, poultry and a wide range of other products.

The 1986-1990 base period for export subsidy calculations was a compromise achieved in the original Dunkel proposal. Applying the proposed percentage reductions to an earlier period, say 1986, when export subsidies were generally lower, would have meant a more substantial real cut in subsidies from current (higher) levels. By the same token, applying the cuts to a more recent period, say 1990, would have resulted in smaller subsidy cuts. Basically, if subsidized exports were lower during the base period than they are today, the

tonnage cut required will actually be greater, in some cases substantially, than the nominal 21 percent agreed upon.

Providing for both tonnage and budgetary limits on export subsidies is important. Budgetary restraints become limiting when world prices are low and more money is needed to make up the difference between internal prices and external prices. In such situations, the EU, in particular, may become more of a residual supplier on the world market.

A number of U.S. export programs will be subject to the Uruguay Round disciplines. The main U.S. program is, of course, the Export Enhancement Program (EEP), but also included will be the Cottonseed Oil Assistance Program (COAP), the Soybean Oil Assistance Program (SOAP) and the Dairy Export Incentive Program (DEIP). The U.S. will be expected to reduce expenditures on these programs and the tonnage of product shipped according to the agreement. Wheat will be the principal commodity affected by the cuts in the EEP, but a number of other commodities will also be affected. Cottonseed, soybeans and dairy products are obviously the products affected by cuts in the other programs.

EU sugar exports will be covered even though the subsidy payments are financed by the producers. Part of Canada's transportation subsidies will also be included but not those that are provided to both domestic shipments and exports. Differential export taxes used by Argentina on oilseed products do not appear to be affected.

The commitments not to introduce new subsidies on commodities is more constraining for the U.S. than for the EU, since many more, if not most, EU exports are already subsidized. This provision will mean that the U.S. will not be able to subsidize exports of some products during the implementation period, even though the EU can. On the other hand, the EU has always been more willing and able to appropriate funds for subsidies to new export commodities, and this activity will be more tightly controlled in the future under the agreement.

MARKET ACCESS DISCIPLINES:

As an overall objective, import barriers are to be lowered by 36 percent over six years.

On average, tariffs will be reduced by 36 percent over the six-year period 1995 to 2000. To attain the overall 36 percent average reduction, tariffs on individual products may be reduced more than 36 percent, but no tariff may be reduced by less than 15 percent (10 percent for developing countries).

Non-tariff barriers, such as variable levies and quotas, will be converted to tariffs under the so-called tariffication plan. There are no exceptions, which

means all non-tariff barriers will be covered, including Japan's rice prohibition, Canada's supply management quotas, the European Union's variable levies and U.S. Section 22 quotas. In most cases, countries will probably choose to employ "tariff quotas" to carry out their commitments under tariffication.

Tariff quotas will operate as follows: For a given commodity, the same level of imports will be allowed to enter as entered during the base period 1986-88 (average) under low or non-restrictive tariffs. Once that level of imports is reached in a given year, a higher tariff will be imposed to limit additional imports. According to the guidelines agreed upon, the quantitative limits are to be increased by 3 percent per year over six years and the above-quota tariffs will be gradually lowered according to the reduction plan for regular tariffs (36 percent reductions by the year 2000 with no reduction less than 15 percent for developed countries, 10 percent for developing countries).

The above-quota tariff will be essentially the difference between the internal and world prices during the base period so as to provide, at least initially, the same level of price protection from imports as exists under the current restrictions.

In cases where imports of a given commodity during the 1986-88 base period were below 3 percent of domestic consumption, countries would have to establish an initial "minimum access" tariff quota at 3 percent of domestic consumption, and this would have to increase to 5 percent by the year 2000. A special exemption has been included that allows countries to delay tariffication until the end of the implementation period under certain circumstances: no export subsidies are used, controls exist on production and the product has been identified as having special factors (e.g. national security). In order to take advantage of this exemption, countries must agree to allow imports equaling 4 percent of domestic consumption (as opposed to 3 percent) the first year and increase imports to 8 percent of consumption at the end of six years.

A special safeguard mechanism may be used to temporarily limit imports, if (1) the volume of imports during the marketing year exceeds certain triggers, or (2) the import price of the commodity in question falls below the average price during the 1986-1988 base period. There are limits on both the time such a safeguard may be imposed and the level of the tariff safeguard employed.

Preliminary evaluation:

Most U.S. agricultural imports are subject to tariffs, and these are generally low or already zero. The 36 percent tariff cuts by the year 2000 will not have a major impact on most producers. Where U.S. tariffs are high (mainly in the fruit and vegetable sector), 36 percent cuts could be significant, but these will be phased in over six years at 6 percentage points each year, and many will be

subject only to 15 percent cuts over the six years. However, deeper cuts will have to be made in tariffs on other products to reach the aggregate 36 percent cut mandated.

Tariffication will mean that U.S. Section 22 quotas will be converted to tariff rate quotas. Minimum import access will have to be provided, equaling 3 percent of domestic consumption in 1995, rising to 5 percent by 1999 (this does not mean the U.S. must import this amount; it means that the U.S. not restrict access for this amount). This provision will affect peanuts, and individual dairy and sugar products where imports are less than 3 percent of consumption. Likewise, the U.S. Meat Import Law will be replaced with tariff-rate quotas under the agreement.

One advantage of tariff quotas over quotas is that they are legal in the GATT and do not require a waiver to be maintained, as is the case with Section 22, they are not challengeable in the GATT, and as such they are less likely to come under congressional scrutiny.

Where imports already exceed the minimum access levels, the existing quotas will be converted to tariff quotas at current access levels. The above-quota tariff will be subject to the overall tariff reduction commitment by 2000. In most cases, the degree of tariff cut will not result in substantial increases in imports, since it is to be expected that the tariff cuts for such products will be the minimum 15 percent required.

The EU has agreed to ensure that, in its conversion of variable levies to tariff quotas, it will assure the maintenance of current access levels for imports. It had been feared that the EU would interpret the methodology for conversion to tariffs in such a way as to actually reduce market access opportunities for imports into the EU market. This EU commitment can be viewed as better than the EU's alternative, but it cannot be viewed as achieving greater market access.

The fact that a rebalancing clause was not included in the agreement is significant. The U.S. could not have accepted any agreement that included rebalancing. Rebalancing would have permitted the EU to erect new import restrictions on corn gluten feed and other products, and would have set an extremely bad precedent for future trade negotiations.

The safeguard mechanism needs careful study in terms of its impact on specific products. The notion of a price-based safeguard originated with the EU, which wanted to retain a mechanism that would operate much like the variable levy that the tariff quotas were meant to replace. If the safeguards are allowed to operate too quickly, they will be too trade inhibiting. The establishment of the price base of 1986-1988 will prevent the use of safeguard tariffs unless import prices are below the average price during that period. The impact will vary from

commodity to commodity depending on the relationship between those prices and prices today, and in the future.

In summary, the benefits of the market access agreement will depend greatly on the degree to which countries' offers are consistent with their obligations, and this cannot be known until all country schedules are available.

DOMESTIC SUPPORT DISCIPLINES:

Domestic supports fall into two categories: those that are minimally or non-trade distorting and, therefore, not subject to GATT disciplines; and those that are trade distorting and, therefore, subject to gradual reductions.

Domestic supports not subject to reductions must meet the fundamental requirement that they have no, or at most minimal, trade distorting or production effects. Examples of such non-trade distorting domestic subsidies include: disaster relief, domestic food aid programs, food security stockholding, income insurance, structural adjustment and long term land retirement programs, environmental payments, regional assistance, research, pest and disease control, training services, extension services, inspection services, promotion services, infrastructural works and services and direct or decoupled payments to producers.

Under the GATT proposal, trade distorting internal subsidies will be subject to 20 percent reductions in their respective "aggregate measurements of support" (AMS) over six years. The AMS, to greatly oversimplify, is the difference between the supported internal price of the commodity and the fixed external reference price for the same commodity during the base period 1986-88 (average) multiplied by the quantity of production eligible for the support.

Domestic supports that do not exceed 5 percent of the total value of production of a product or product sector will not be subject to reduction requirements.

Countervailing duties may not be applied against domestic subsidies employed in accordance with the agreement. Other measures, for example Section 301, may be employed, however. This prohibition on the use of countervailing duties does not apply to direct export subsidies.

Preliminary evaluation:

Trade-distorting domestic supports are to be reduced by 20 percent over six years, beginning in 1995 and using the average level of support in 1986-1988 as the starting point. Therefore, where supports were higher during the base period than today, no reductions will be required.

Domestic support cuts are not actually made in the support price, itself, but rather in the gap (the AMS) between the supported internal price and the external reference price. The gap depends not only on the level of government support, but also on the reference price level during the 1986-1988 base period. In any case, the 20 percent cut in the gap by 1999 would result in annual reductions in the gap of 3.3 percent beginning in 1995.

To determine the actual effect on support prices, the external reference prices would have to be known. However, assuming that the domestic price is no more than a third higher than the external price, the effect is likely to be no more than a 1 percent reduction in the support price each year.

The GATT agreement would allow any lost income to producers from these cuts to be offset by direct income payments that may be tied to environmental or other similar activities, but may not be tied to production.

SANITARY AND PHYTOSANITARY DISCIPLINES:

An agreement on sanitary and phytosanitary (S&P) measures is included in the Uruguay Round agreement. It establishes rules and disciplines on the development and use of measures in the areas of food safety and plant, animal and human health to ensure they are not employed as unjustifiable trade barriers. The S&P agreement acknowledges the sovereign right of countries to adopt regulations in these areas but requires that they be based on valid scientific grounds. Countries are expected to use international standards whenever appropriate, but may adopt stricter standards provided they are based on available scientific evidence that more stringent standards are necessary.

Preliminary evaluation:

The achievement of an agreement on the use of sanitary and phytosanitary measures to avoid their use as disguised trade barriers has been a high priority for U.S. agriculture in these trade talks. This agreement will make it difficult for countries to reduce traditional trade barriers and simply replace them with a new health regulation. On the other hand, no country will be prevented from adopting measures that are genuinely necessary for the protection of human, plant or animal life, based on valid scientific data. There is nothing in the agreement that will require the U.S. to adopt weaker regulations or will prevent the U.S. or any state from adopting more stringent regulations, as long as they have a scientific basis. Even if challenged, the U.S. would not be required to weaken them, if our scientists believe they are valid.

National Grange

of THE ORDER of PATRONS of HUSBANDRY

1616 H Street, N.W., Washington, D.C. 20006-4999 - (202) 628-3507 - FAX: (202) 347-1091

Robert E. Barrow, Master



April 15, 1994

APR 20

The Honorable E (Kika) de la Garza, Chairman
House Agriculture Committee
1301 Longworth House Office Building
Washington, D. C. 20515-6001

Dear Mr. Chairman:

The National Grange has some reservations regarding the Uruguay Round of the General Agreement on Tariffs and Trade. The voting delegates at our 127th Annual Convention adopted a position in opposition to the tariffication of the Section 22 restrictive quotas on dairy products. For that reason, we have not taken a position on the final trade agreement.

However, we strongly oppose the proposals that are being considered by the Administration that would require significant reductions in the current farm programs, export subsidies, and GATT-legal "green box" export assistance programs to help offset a major portion of the revenue loss as a result of reduced tariff revenues under the trade agreement.

There has been an ongoing debate over the cost of the GATT agreement, which was signed last week in Marrakesh, Morocco, by 125 nations. The scheduled reduction in import tariffs under the agreement will result in a net loss of federal revenues of an estimated \$13 to \$18 billion over the next five years. Of that amount, only \$688.8 million is attributable to a reduction in agricultural tariffs. It is difficult for farmers to understand why they may be asked to pay for non agricultural sectors' loss in tariff revenues by further reductions in agricultural programs.

Agriculture accepted the negotiated reduction in domestic and export subsidies for agricultural commodities during the Uruguay Round. In exchange, we received similar percentage reductions from the European Community (European Union) in like programs. However, because both their (EU) domestic and export subsidies were higher than ours, the percentage reduction still leaves somewhat of an uneven playing field.

Likewise, we were disappointed in the changes made to the original Blair House accords. But we accepted the further reduction in U. S. agriculture's goals regarding export subsidies because we did not want to be obstructionists to a final GATT agreement.

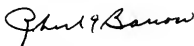
The Honorable E (Kika) de la Garza, Chairman
April 15, 1994
Page 2

If U. S. agriculture is forced to absorb the \$3 to \$4 million estimated tariff revenue loss through further reductions in farm programs, export subsidies, and/or GATT-legal export assistance programs, it would be unilateral U. S. agricultural disarmament and would be injurious to American farmers and ranchers.

Therefore, we strongly oppose having U. S. farmers pay for a disproportionate share of the cost of the GATT agreement.

Thank you for allowing the Grange to present its views on the GATT implementing legislation. We ask that this letter be made part of the hearing record.

Sincerely,



Robert E. Barrow, Master
National Grange of the Order
of Patrons of Husbandry

REB/rfh

STATEMENT BY THE
HONORABLE DOUG BEREUTER
BEFORE THE
HOUSE AGRICULTURE COMMITTEE
APRIL 20, 1994

Mr. Chairman (Mr. de la Garza), Ranking Minority Member (Mr. Roberts), and Members of the committee, thank you for the opportunity to offer testimony before your committee today on the Uruguay Round trade agreement and its beneficial effect on U.S. agriculture.

First, let me state that I clearly believe the Uruguay Round trade agreement, if implemented, will substantially improve the world trade environment for many industrial sectors and especially agriculture. I have been a longtime proponent of efforts to include agricultural trade under world trade rules. As one of the world's most competitive producers of agricultural commodities, the United States stands to gain the most from disciplined trade rules in this very important industry.

Mr. Chairman, since 1947 and the inception of the General Agreement on Tariffs and Trade, member nations have cooperated to write international trade rules for nearly all industries. However, for many reasons, these nations have been unable to cooperate and form global trade rules for agriculture. The Uruguay Round's most ambitious task was to forge basic rules for this important sector. Although it took longer than planned, this is clearly the single most important accomplishment of the Uruguay Round.

By including agricultural trade under world trade rules for the first time ever, the Uruguay Round is projected to:

- Increase U.S. Agricultural exports from \$1.6 - \$4.7 billion by year 2000 and from \$4.7 - \$8.7 billion by 2005, with grain and animal products accounting for 75% of the increase.
- Increase net farm sector income by as much as \$1.3 billion in 2000 and by as much as \$2.5 billion in 2005. This could help to reduce government spending on agricultural subsidies by roughly the same amount.

Mr. Chairman, the Uruguay Round trade agreement is projected to have this positive effect on U.S. agriculture because it accomplishes the following four essential tasks:

- 1) It reduces and prohibits many trade-distorting internal subsidies and other agricultural policies. (Because U.S. agricultural producers have already been forced to take serious budget cuts, they will not be affected by internal subsidy reduction agreements reached under the accord.)
- 2) It reduces trade distorting and price depressing export subsidies. (Unfortunately, the Clinton Administration's was forced to accept a European Union proposal to more gradually reduce their trade-distorting agricultural export subsidies. This compromise represented a retreat from the dramatic Blair House agricultural accord previously negotiated by the Bush Administration which would have prohibited the European Union from subsidizing

an additional 8.1 million tons of wheat and flour over the six year phase-out period).

3) It converts non-tariff barriers to tariff equivalents, binding all tariffs and reducing both existing and new tariffs over time. (This binding of tariffs incidentally will have its most significant impact on developing and newly developed countries entering the World Trade Organization...For instance, the new binding tariff rates are already having a beneficial impact on Taiwan's WTO accession negotiations with United States trade officials.)

4) It establishes a science-based system to discipline agricultural trade rules, and therefore, makes it more difficult for importing nations to discriminate against U.S. agricultural commodities on illegitimate health and safety claims.

Clearly, Mr. Chairman, the Uruguay Round trade agreement is greatly beneficial to the U.S. agricultural industry which currently enjoys an annual \$18 billion trade surplus. To Nebraska's grain and livestock producers, this agreement is perhaps most beneficial. Our grain producers export nearly one out of every three acres, so export subsidy reductions (which fall more drastically on European Union producers) will better enable them to compete for foreign markets by "leveling the playing field." Additionally, these grain producers should benefit indirectly from greater market access to countries like Korea, where Nebraska's livestock producers expect to export a lot more grain-fed meat products.

Nevertheless, Mr. Chairman, despite the Uruguay Round agreement's overwhelmingly beneficial effect on U.S. agriculture, it has been reported in several newspapers that the Clinton Administration may attempt to make-up lost tariff revenues from implementation of the Uruguay Round by forcing unnecessary and imprudent budget cuts on the U.S. agricultural industry. While, I believe there is a strong justification for waiving the budget act's application to the Uruguay Round implementation legislation because the increased economic activity generated under the enhanced trade from the Uruguay Round would generate more corporate and individual income tax revenue than the lost tariff fees even in the first year, I urge the Administration, at a minimum, to fund all U.S. agricultural export subsidy programs to the full extent permitted by the value and volume export subsidy reduction commitments undertaken in the Uruguay Round. Finally, I support efforts by the coalition of food and agricultural interests to request that the Administration shift current funding from Uruguay Round reduced or disallowed programs to certain "green box" subsidy programs which are permitted to be increased under the Uruguay Round agreement.

Mr. Chairman, I am sure you agree, that American agricultural producers have been forced to make significant agricultural subsidy reductions in recent Farm Bills and agriculture appropriations acts. The Uruguay Round negotiations take into account these past cuts in agricultural subsidies and U.S. farmers were assured during the Uruguay Round negotiations that recent internal agriculture subsidy reductions were sufficient to meet the commitments made in that agreement. It would be especially harmful if the Clinton Administration decided to "unilaterally disarm" the U.S. agricultural industry by reducing agricultural subsidies permitted under the Uruguay Round agreement. If the United States chooses such an unrealistic strategy, foreign agricultural producers and nations will gladly take over traditional U.S. markets and beat us to lucrative markets emerging in the world's developing countries.

Coalition For Food Aid

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Chairpersons
Peggy Sheehan
Charles Sykes

Executive Director
Ellen Levinson

TESTIMONY

Submitted by:

**Ellen S. Levinson, Executive Director
COALITION FOR FOOD AID**

Before the

**Committee on Agriculture
United States House of Representatives**

Regarding

**IMPLEMENTATION OF THE FINAL ACT OF THE URUGUAY
ROUND OF MULTILATERAL TRADE NEGOTIATIONS**

April 20, 1994

ADVENTIST DEVELOPMENT AND RELIEF, INC. • AFRICARE • AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL • CARE • CATHOLIC
RELIEF SERVICES • LAND O' LAKES • NATIONAL COOPERATIVE BUSINESS ASSOCIATION • SAVE THE CHILDREN
OIC International • WORLD SHARE • WORLD VISION RELIEF AND DEVELOPMENT, INC. Int'l Orthodox Chr. Char.

Executive Summary

Mr. Chairman, thank you for this opportunity to submit testimony for the record on behalf of the Coalition for Food Aid regarding the implementation of the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations ("Final Act"). The Coalition for Food Aid is comprised of private voluntary organizations and cooperatives which conduct international food assistance programs using commodities provided pursuant to P.L. 480 title II, Section 416 of the Agricultural Act of 1949, and the Food for Progress Act.¹

The Final Act requires reductions in agricultural export subsidies over a period of six years. However, it permits certain "green box" activities, including agricultural market promotion and food assistance programs. We believe the United States should maximize its use of allowable green box activities.

The Final Act includes a Ministerial Declaration stating that the Ministers agree to increase their provision of food aid to developing countries. This declaration is based on the findings of a number of studies that, as a result of trade liberalization, world commodity prices are expected to increase and poor, food-importing countries will be less able to afford to purchase foodstuffs.

We call your attention to this food aid declaration, Mr. Chairman, because we believe that the intent of the Ministers' agreement should be incorporated into the implementing legislation. We are concerned that U.S. food aid tonnage (Section 416 and P.L. 480 combined) is 30 percent less in FY 1994 than in FY 1993. The President's budget request would reduce P.L. 480 funding by an additional 17 percent in FY 1995. These decreases in U.S. food assistance run counter to the Ministers' agreement that the provision on food aid to poor, food-importing countries should be increased. Therefore, language needs to be included in the implementing language in order to reverse this downward trend in U.S. food assistance.

¹ Members of the Coalition: National Cooperative Business Association, CARE, ADRA International, Land O'Lakes, Save the Children, World Vision Relief & Development, Inc., Catholic Relief Services, Africare, Agricultural Cooperative Development International, International Orthodox Christian Charities, Opportunities Industrialization Centers International, Inc.

Effects of the Final Act on Food Aid Needs and Availabilities

Due to changes in U.S. agricultural policies, levels of government-held surplus commodities have decreased. As a result of the Final Act, international surpluses are expected to fall and world food prices are expected to increase. Therefore, levels of international food aid should no longer be driven by the amount of surplus stocks held in government inventories. Instead, levels of assistance should be driven by food aid needs.

Our country has already moved away from the concept of "surplus disposal" as the purpose for food assistance programs. The 1990 Food, Agriculture, Conservation, and Trade Act ("FACT Act") created a new overarching goal for P.L. 480: promoting the food security of the developing world. Over a forty year period, the focus of P.L. 480 has shifted from being a surplus disposal and foreign policy mechanism to providing food assistance to countries which lack food security and to help to improve the living conditions, health, incomes and productivity of poor and malnourished people.

Therefore, even though the United States may no longer have surplus commodities to donate abroad pursuant to the Section 416 authority, P.L. 480 can be used and new authorities can be developed to assure that the United States continues to play a meaningful role in addressing the food aid needs of less developed countries.

References to Food Aid in the Final Act

Article 10 of the Agreement on Agriculture states, among other things, that donors of international food aid shall ensure that: (1) food assistance is not directly or indirectly tied to commercial exports; (2) international food aid transactions will be carried out in accordance with the Food and Agriculture Organization principles of surplus disposal and the usual marketing requirements ("UMRs"); and (3) food aid shall be provided to the extent possible in fully grant form or in terms no less concessional than those provided for in Article VI of the Food Aid Convention of 1986. The United States' assistance programs which meet the Article 10 definition of food aid include P.L. 480, Food for Progress, Section 416, and the Food Security Wheat Reserve.

Special measures were also incorporated into the Final Act as part of the Ministerial Decisions and Declarations concerning the "possible negative effects of the reform programme on least-developed and net food-importing developing countries." To summarize, this part states that:

1. Due to the liberalization of agricultural trade, least developed and net food-importing countries may experience negative effects in terms of the availability of adequate supplies of basic foodstuffs from external sources on reasonable terms and conditions, and in financing normal levels of commercial imports of basic foodstuffs.
2. The Ministers agree to review the level of food aid established by the Committee on Food Aid under the Food Aid Convention and to initiate negotiations to establish a level of food aid commitments sufficient to meet the legitimate needs of developing countries.
3. The Ministers agree to adopt guidelines to ensure that an increasing proportion of basic foodstuffs is provided to least developed and net food-importing countries as food aid.

The Ministerial agreement to increase food aid commitments is in accordance with section 2 of the Agricultural Trade Development and Assistance Act of 1954, as amended, which calls on the President to "increase the contributions of food aid by the United States, and encourage other donor countries to increase their contributions toward meeting new food aid requirements."



NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

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POSITION STATEMENT

TESTIMONY OF THE

NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

SUBMITTED TO HOUSE COMMITTEE ON AGRICULTURE APRIL 20, 1994

RE: GATT REVENUE OFFSET PROPOSALS

The National Association of State Departments of Agriculture (NASDA) appreciates the opportunity to submit testimony to the House Committee on Agriculture which addresses concerns over reports that the Administration has under consideration proposals which would require significant reductions in agriculture-related programs to help offset tariff losses to the General Agreement of Trade and Tariff (GATT). NASDA is the nonprofit association of public officials representing the Commissioners, Secretaries and Directors of Agriculture in the fifty states and the territories of America Samoa, Guam, Puerto Rico and the Virgin Islands. The viability of American agriculture depends on developing and maintaining not only sound production programs but also strong competitive export programs and markets.

As the chief state agricultural officials concerned with production agriculture and export market development programs across the entire United States, NASDA's members are alarmed over reports that the Administration apparently is considering proposals which would address the new GATT revenue offsets by unfairly requiring a significant proportion of the estimated \$14 to \$18 billion revenue reduction to be made up by reducing critical agriculture support programs.

More disturbing, however, is the fact that such a requirement is completely contrary to the Administration's repeated assurances to agriculture throughout the negotiations relating to GATT that such would not be the case. At the same time, the Administration consistently emphasized its commitment to fully and aggressively utilize the full range of authorities under GATT to maintain U.S. agriculture's ability to remain competitive in the international marketplace.

- It should be noted the \$14 to \$18 billion cost to the United States in reduced revenue is highly subjective and reflects only the estimated revenue losses resulting from required reductions in tariff levels under the GATT. These losses do not take into account the potential for increasing revenues projected during GATT negotiations, as a result of expanded trade opportunities and additional economic activity, which translate into more jobs and a larger tax base. NASDA believes it would be grossly

*NASDA IS A NONPROFIT ASSOCIATION OF PUBLIC OFFICIALS REPRESENTING THE COMMISSIONERS,
SECRETARIES AND DIRECTORS OF AGRICULTURE IN THE FIFTY STATES AND FOUR TERRITORIES.*

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unfair to require U.S. agriculture to offset a disproportionate share of these revenue losses since the cost resulting from reductions in agriculture-related tariffs amount to less than 5 percent of the estimated total.

The Administration has estimated that the new GATT agreement may increase U.S. agriculture exports by \$1.6 to \$4.7 billion by the year 2000 and its share of the world market by an additional one percent. U.S. net farm income is also projected to be nearly \$1 billion higher by the year 2000, an increase of one to two percent.

Even these modest projections, however, assumed that current programs would be maintained, as allowed under GATT, at current baseline levels. Based on such projections, further reductions in domestic and international programs below the current baseline could result in the new GATT agreement becoming more of a negative for agriculture rather than a positive.

Since the 1980's the international marketplace has been characterized by increasing competition, much of it heavily subsidized, and the use of unfair trading practices and artificial trade barriers. As a result, U.S. agriculture has continued to lose market share. This loss in market share has cost U.S. agriculture and our national economy approximately:

- \$10 billion in reduced exports annually;
- \$24 billion in lost economic activity annually; and
- over 200,000 fewer jobs.

Whether the recently signed GATT agreement will help reverse this decline by providing expanded trade opportunities for U.S. agriculture remains to be seen. Again, the key to its success will depend on the U.S. government and its level of commitment to U.S. agriculture.

A solid commitment to American agriculture is essential for several important reasons.

- First, the new GATT agreement increases competition – both in domestic and international markets.

Within the domestic market, competition will increase as a result of the U.S. providing the rest of the world with increased market access as required under GATT. It is unilateral in effect since it is virtually certain to result in increased foreign imports.

However, there is no such certainty that U.S. agriculture will be able to take advantage of similar market openings by other countries. This is because such opportunities are multilateral in nature. The U.S. will be competing against every other exporting country in the world for such markets.

- Second, in the context of increasing competition for international markets, it must be recognized that the new GATT agreement does not eliminate export subsidies. It only reduces them.

For example, under the new GATT agreement, countries are required to reduce the use of such export subsidies for each commodity by 36 percent in terms of value and 21 percent by volume by the year 2000 over the selected base period.

While this will reduce the overall level of such subsidies, it maintains any relative advantage enjoyed by other countries especially the European Union, over the U.S., on a commodity by commodity basis.

- Third, the GATT agreement allows countries to maintain and even increase their support for other policies and programs which are classified as non-trade distorting or within the "green box". These include, among other programs, market development and promotion, export credit, and food assistance. These are the exact programs which would be reduced in the Administration's proposed 1995 Budget.

The European Union has made it clear that it will continue to utilize every available means to take advantage of any market opportunities provided under GATT to maintain and expand their share of the world market. This includes using export subsidies up to the maximum allowed, while redirecting increasing resources into so-called green box programs not subject to reduction under GATT. Again, without a similar commitment on the part of the U.S. government, U.S. agriculture will be at a substantial disadvantage.

Under the Administration's budget proposal, USDA's Market Promotion Program (MPP) would be reduced 25 percent; Foreign Market Development (FMD) by one third; P.L. 480 by approximately 20 percent; and the Cottonseed Oil and Sunflower Oil Assistance Programs (COAP and SOAP), and The Emergency Food Assistance Program (TEFAP) would be virtually eliminated. These proposed reductions are unilateral in nature, since they do not require an equivalent reduction on the part of our competitors, including the European Union and other exporting countries.

A commitment to American agriculture is essential:

- There is a growing world population that must be fed.
- Food will be a major determining factor in future political power.
- The American farmer dominates the world in production of most food and in food production technology.
- Creation of food and fiber uses renewable resources, and protects the environment while creating wealth and not depleting natural resources.
- The future of America's farmers and agricultural infrastructure depends on expanding into new and maintaining current export markets to meet the world's needs for food and fiber.

For all these reasons, NASDA believes the following actions should be taken:

- ♦ First, funding for all domestic and international programs relating to agriculture must be maintained and aggressively utilized as allowed under GATT.
- ♦ Second, any funds relating to any domestic or international program subject to reduction under GATT (such as, EEP, DEIP, COAP, AND SOAP) should be redirected and made available as allowed under GATT for such green box programs as Market Development and Promotion, export credit, and domestic and international food assistance, including P.L. 480 and TEFAP. These recommendations were also outlined in recent letters to the President. (See attached).

- ◆ Third, to maintain and increase America's agricultural position in the world market all programs should be fully funded and receive the full support of the best export technology available.

Without these actions, it is hard to envision how America's agriculture in the aggregate stands to gain as a result of the new GATT agreement. Not only would the nation's farmers and ranchers be adversely affected, but also the nearly one million American's whose jobs are directly dependent on agriculture-related exports. The American consumer would see a progressively increased cost of living as the American farmer loses international market share which is critical to maintaining a low cost food supply at home.

Accordingly, NASDA would find it very difficult to support any implementing legislation which would result in a disproportionate share of the cost of GATT being imposed on U.S. agriculture, or in agriculture being unable to remain viable and competitive in the international market place.

The National Association of State Departments of Agriculture appreciates this opportunity to state our concerns. NASDA will continue to work with the members of the Agriculture Committee to support, promote and protect America's farmers, ranchers and the production and export marketing programs that make it possible for America to grow and prosper.

(Attachment follows:)



NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

<i>President</i> Bob Odum Louisiana	<i>President-Elect</i> Bruce Andrews Oregon	<i>Vice President</i> Alan T. Tracy Wisconsin	<i>Secretary-Treasurer</i> Boyd E. Wolf Pennsylvania	<i>Past President</i> Stephen H. Taylor New Hampshire
<i>Northeastern Region</i> Bernard W. Shaw Maine	<i>Southern Region</i> Gary Sherre Oklahoma	<i>At-Large</i> Betsy Doyle Illinois	<i>Midwestern Region</i> Sarah Vogel North Dakota	<i>Western Region</i> Yukio Kikugawa Hawaii

April 14, 1994

The President
The White House
Washington, DC 20500

Dear Mr. President:

As President of the National Association of State Departments of Agriculture (NASDA), I would like to call your attention to concerns we have about GATT revenue offset proposals. There has been considerable debate recently over the fact that the new GATT agreement may lead to as much as \$14-18 billion in lower revenues due to reductions in existing U.S. tariff levels. Such estimates are highly subjective and fail to consider the potential for increased revenues due to expanding trade and increased economic activity which help create jobs and an expanded tax base.

Nevertheless, it is our understanding the Administration has under consideration various proposals, including requiring significant reductions in current farm and export-related programs to help offset a major portion of such revenue losses. This is despite the fact that revenue losses due to lower tariffs on agricultural imports account for only about 5 percent or less of the estimated total of \$14-18 billion.

More disturbing, however, is the fact that such a requirement would be completely contrary to the Administration's repeated assurances to agriculture throughout the negotiations relating to GATT.

In meeting after meeting, the agriculture industry was repeatedly assured that the new GATT agreement would not require any further reduction in domestic income and price-support programs. At the same time, the Administration consistently emphasized its commitment to fully and aggressively utilize the full range of authorities under GATT to maintain U.S. agriculture's ability to remain competitive in the international marketplace.

This is especially important since the GATT agreement reduces but does not eliminate the use of export subsidies. Further, it allows countries to maintain and increase their support for certain non-trade distorting programs which are categorized as "green box" activities. These include market development and promotion, export credit, food aid and other related programs. The Administration, however, has already proposed that many of these programs be significantly reduced as part of its FY 1995 budget proposal submitted to Congress.

Richard W. Kirchhoff, Executive Vice President & Chief Executive Officer

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Clearly, our foreign competitors can be expected to utilize every available authority under the new GATT agreement, including the use of export subsidies, as well as shifting increasing resources into so-call green box initiatives, to maintain and increase their share of the world market. Without a similar commitment on the part of the U.S. government, U.S. agriculture will be at a significant disadvantage.

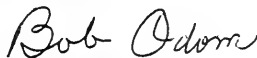
For these reasons, NASDA would like to take this opportunity to urge the following actions. First, funding should be maintained for both domestic and international programs relating to agriculture as allowed under GATT. Second, any funds subject to reduction under GATT (such as those used for direct export subsidies) should be redirected and made available as allowed for various green box programs as previously outlined.

Unless these concerns are addressed, it is hard to envision how U.S. agriculture stands to gain as a result of the new GATT agreement. Not only would the nation's farmers and ranchers be adversely affected, but so would many of the nearly one million Americans whose jobs and livelihoods are directly dependent on agriculture-related exports.

Accordingly, NASDA would find it very difficult to support any proposed implementing legislation which would result in a disproportionate share of the "cost" of GATT being placed on U.S. agriculture, or result in American agriculture losing the necessary market development tools to remain viable and competitive in the international marketplace.

As President of NASDA, I appreciate this opportunity to share our concerns, and respectfully request your full review of such proposals consistent with the Administration's past assurances and commitments to U.S. Agriculture.

Sincerely,



Bob Odom
President

/cg



National Grain and Feed Association

STATEMENT OF THE NATIONAL GRAIN AND FEED ASSOCIATION ON THE URUGUAY ROUND AGREEMENT April 25, 1994

The National Grain and Feed Association (NGFA) fully supports the Uruguay Round agreement of the General Agreement on Tariffs and Trade (GATT). We strongly urge its speedy consideration by Congress and its timely approval so that the agreement can take effect on January 1, 1995.

Potential Benefits to U.S. Agriculture

The potential benefits of the Uruguay Round agreement to U.S. agriculture and to the general economy have been well documented. According to the U.S. Department of Agriculture's analysis, the agreement will increase world income by as much as \$5 trillion over ten years, increasing world demand for agricultural products. Agricultural exports from the United States are projected to increase as much as \$4.7 billion in the year 2000 and as much as \$8.7 billion in the year 2005. These increased exports will mean an increase of 112,000 export-related jobs by 2000 and 190,000 jobs by 2005.

Increased exports also will raise farm income from the marketplace and result in reduced government outlays to support U.S. agriculture. Farm income is expected to rise by as much as \$2.5 billion in 2005, while outlays could decline by \$2.6 billion by 2005. Clearly, in the aggregate, the market opportunities presented by the Uruguay Round are a boon to U.S. agriculture.

For wheat and coarse grains, the Uruguay Round holds out especially bright income improvement prospects for producers and for related businesses. By the year 2005, U.S. wheat exports are projected to increase by as much as 50 percent above current-year levels, resulting in a substantial strengthening of prices for U.S. wheat producers. Coarse grains are projected to fare even better under the Uruguay Round agreement, with exports expected to increase as much as 70 percent. Corn prices are expected to strengthen substantially and corn growers will reap income benefits from their newly expanded market. These projections also bode well for reducing federal outlays for commodity programs in an era of ever-tightening budget requirements.

Perhaps most encouraging from the NGFA's point of view are the projected increases in planted acres. It is no secret that, for the grain, feed, and processing industry to thrive, plentiful supplies of U.S.-produced commodities must be available. Recent programs under which the United States has idled nearly 60 million acres of productive U.S. farmland have contributed to radical shrinkage and consolidation in the grain handling, marketing, and processing sector.

Using only wheat and coarse grain projections, planted acres could increase by nearly 19 million acres -- roughly the amount of land many people "worry" will come back into production when Conservation Reserve Program (CRP) contracts expire. This increased production will not dampen prices and farm income for U.S. producers -- on the contrary, these increased supplies will satisfy growing world demand for U.S. agricultural commodities and will re-invigorate a U.S. agricultural economy that has suffered because of policy decisions to tightly control supplies of U.S. grains and oilseeds. The Uruguay Round agreement holds out the promise of climbing out of the hole we have dug for ourselves and reclaiming at least a small share of markets lost since 1980.

It is not just grain handlers and processors who will benefit from the increased economic activity brought about by greater production. Main street business which provide goods and services to U.S. agriculture will benefit. Our comprehensive marketing and transportation sector, which has seen too many disincentives to new investment, will benefit. Rail carriers who have seen volume shrink in rural areas because of severely limited production should see volumes rise to the extent that rail service critical to the economic success of small towns can be continued. Communities will sustain the level of economic activity needed to support schools, hospitals, and services. All across the board, communities that depend on U.S. agriculture for their health and profitability will benefit, as will the individuals whose jobs and benefits depend on a healthy agricultural economy. These are ripple effects that may not be easily measured as a direct result of the Uruguay Round, but they are no less real and have no less impact on rural economic activity and the quality of life in small towns across the country.

The Uruguay Round is Not a U.S. Set-Aside

The Uruguay Round agreement indeed does hold out the prospect of stunning export and income improvements for all of U.S. agriculture. We are concerned, however, that some are taking all these wonderful economic advances for granted. Some people seem to think that the United States will be able to hold out its hands and that Uruguay Round cash simply will fall into them. The NGFA does not believe the numerous economic gains promised over the next ten years will come that easy. We need to make every effort to implement policies that will insure U.S. competitiveness and efficiency in the world marketplace and to aggressively capture Uruguay Round benefits for all sectors of U.S. agriculture.

For example, annual acreage reduction programs (ARPs), which have constrained U.S. grain stocks to the point that U.S. production is not sufficient to meet even domestic demand, must be pegged at zero. This point has been driven home as Canadian wheat exports to the United States have increased substantially. Although this year's import levels are a temporary phenomenon brought on by a flood-reduced corn crop and a poor-quality wheat harvest in the northern United States, the situation vividly illustrates how U.S. competitors will take up the slack if we do not produce sufficient quantities of wheat or any other commodity. Domestic supplies needed by U.S. processors and livestock and poultry feeders are shorted, and exports dwindle. If we continue to make the same mistake of idling cropland, trying to manage stocks at minimal levels (in a vain attempt to control prices in a world market), the above-mentioned

benefits of the Uruguay Round will prove illusory. We must meet the challenge of producing and marketing for increased demand; only in doing so will farmers and agribusiness alike experience the economic growth so richly deserved after a number of lean years.

In addition, the Conservation Reserve Program must be fundamentally reexamined as contracts begin to mature. There is nearly universal agreement that millions of acres of prime cropland that should not have been eligible were accepted into the CRP. Especially now, with strict conservation compliance requirements in place, much CRP land could be farmed in an environmentally responsible manner. In fact, these acres will be needed if the United States is to capitalize on the Uruguay Round. Rather than cede markets to the European Union or encourage further destruction of tropical rain forest and other environmentally sensitive land in developing nations, the United States should encourage farmland that is not highly sensitive to come back into production.

Export Enhancement Program Must be Restructured

The NGFA fully supports the Uruguay Round's accomplishment of reducing trade-distorting export subsidies by 21 percent on volume and 36% on budget. Indeed, we would have preferred substantially deeper reductions or even outright elimination of such subsidies by all GATT-member nations. However, we see Uruguay Round reductions as a sound starting point.

A number of organizations have raised concerns about the Export Enhancement Program's (EEP) future operations under the Uruguay Round agreement. The NGFA shares those concerns, particularly relating to U.S. wheat exports. In recent years, the United States has been competitive in the world wheat marketplace only on volumes exported under EEP. As EEP funding declines (as it must), that volume on which we are competitive also will shrink unless changes are made in our export regime.

The NGFA believes that the future U.S. agricultural export environment should maximize agricultural exports; improve cost-effectiveness; and minimize trade distortions. The exact parameters of such an export environment remained to be worked out, but private commercial exporters should be allowed the flexibility, under a market-based approach, to meet export demand in a timely and competitive fashion. Detailed review of each export initiative by the federal government would serve as an unnecessary impediment to more efficient and effective U.S. exports, so government involvement in export trade should be minimal. Under these general guidelines, we believe the remnants of EEP, as well as an expanded, truly competitive U.S. export regime, could operate to the advantage of all concerned, from farmgate to export.

Funding the Uruguay Round

Finding a budgetary offset for the roughly \$13 billion in tariff revenues expected to be lost during the initial five years of the Uruguay Round agreement has become the issue of the day. The NGFA will not recommend specific funding alternatives, but we do believe strongly that ways of compensating for the lost tariff revenue must be found quickly. We do not believe

agriculture should bear a disproportionate share of the costs; neither do we believe Uruguay Round approval should be held hostage over budget squabbles. Many U.S. industries will benefit from the Uruguay Round and, thus, should be willing to share the implementing cost in expectation of future benefits.

Conclusion

In any case, the NGFA urges expeditious Congressional consideration and approval of the agreement. Any delays will merely play into the hands of those who oppose the agreement. It is imperative, in our view, that implementing legislation be approved by Congress this year, so that the agreement can become operative on January 1, 1995. Given the tremendous benefits to U.S. agriculture and the general economy, implementation should begin at the earliest possible date.

**Statement
of the
National Pork Producers Council
on the
General Agreement
before the
House Committee on Agriculture
April 20, 1994**

Mr. Chairman and members of the Committee, the National Pork Producers Council (NPPC) appreciates the opportunity to express our views on the GATT agreement and its potential impact on the U.S. pork industry.

As many members of Committee know, the U.S. pork industry exports only 2.5 percent of its production annually despite being the most efficient pork producing country in the world. In fact, the U.S. is the world's second largest importer of pork, largely due to the egregious tariff and nontariff trade barriers and aggressive use of export subsidies of our foreign competition. Given the fact that pork is the meat of choice in the world today, with more than a 40 percent market share, we strongly support efforts to reduce or eliminate barriers to trade, trade distorting practices such as export subsidies and internal subsidies that has precluded our industry from claiming its rightful share of the world pork market. The pork industry was an early supporter of the GATT agreement as negotiated. However, we continue to express our views and concerns regarding a number of issues that need to be effectively resolved prior to our endorsement of the implementing legislation that will accompany this agreement.

In particular, the NPPC is concerned about published reports regarding options under consideration that would require American agriculture to pay a disproportionate share of the estimated \$14 - 18 billion cost of the GATT agreement. We strongly support the position of the ad hoc coalition that is testifying today on this critical issue.

Industry projections indicate that exports of U.S. pork and pork products could more than double - valued at more than \$1 billion - within three to four years after the GATT agreement goes into effect. These export goals are attainable with the market access opportunities afforded to the pork industry in this agreement, coupled with the implementation of the North American Free Trade Agreement (NAFTA) which phases out tariffs on U.S. pork, pork products and live hog exports to Mexico while providing preferential access to U.S. exports.

The GATT agreement includes a strong text which harmonizes the Sanitary and Phytosanitary (S&P) measures between GATT members on the basis of international standards. In particular, the Agreement requires the use of "sound science" by member countries and establishes the principle of equivalency on all S&P issues. The clear intent of the strongest S&P text

ever negotiated is to eliminate the use of nontariff trade barriers to disrupt trade such as the EU's Third Country Meat Directive which has virtually halted all U.S. exports to this market. We fully expect all GATT signatories to adhere to the science-based principles of the S&P title. By the same token, we fully expect the U.S. to aggressively pursue and resolve any animal health or food safety trade dispute that is not science based.

The final text on dumping is an improvement over earlier negotiating drafts, but is still somewhat weaker than current U.S. trade law. The agreement requires an automatic termination of existing dumping and countervailing (CVD) orders after five years, however, the standards for revocation have been softened somewhat. Most importantly, the U.S. can continue to bring CVD, dumping or Section 301 cases against any GATT member country during the implementation period if the GATT member violates the terms of the agreement. We believe that the implementing language must strengthen such issues as specificity, the definition of a subsidy and the role of the World Trade Organization in dispute settlement.

The agreement provides the following specific market access opportunities:

Japan, the world's largest importer of pork and our largest export market valued at \$305.6 million in 1992, has committed to reduce its gate price by 29 percent over the life of the agreement. The commitment will effectively reduce the gate price or variable levy mechanism by 214 yen per kilogram, thereby reducing the minimum import price to 524 yen per kilogram at the end of the implementation period. The 29 percent reduction in the gate price will accomplish two important objectives for the U.S. pork industry in Japan. First, it will permit the comparative advantage of the American pork industry to be realized, not only against our foreign competition, but also against other sources of protein in Japan. Second, a 29 percent reduction in the gate price should virtually eliminate the so-called "Nagoya Connection," or under-invoicing of pork originating in Taiwan.

The fresh, chilled pork market in Korea was liberalized on January 1, 1994, as scheduled. There will be no quotas or restrictions on fresh, chilled pork imports. Initial tariffs will be 37 percent and will be reduced to 25 percent over the ten year implementation period. In addition, frozen and processed pork imports will be fully liberalized on July 1, 1997. However, in the interim, Korea will establish a quota for certain categories of frozen and processed pork. Specifically, the quota for pork will be 21,930 metric tons in 1995, 29,240 mt in 1996 and 18,275 metric tons for the first half of 1997. Like chilled pork, initial tariffs will be set at 37 percent and reduced in equal installments to 25 percent by 2004. However, it is important to note that we are experiencing significant trade disruptions with Korea at the present time. As a result, we are strongly encouraging the Administration to include Korea on the Super 301 list, given its ongoing pattern of trade disrupting practices.

The European Union will establish a tariff rate quota for 75,000 metric tons of pork, including a 39,000 mt allocation toward tenderloins, boneless loins and boneless hams. The in-quota tariffs for the hams and loins will be 250 ECU/mt or approximately 4 percent, while the in-quota tariff for tenderloins will be 300 ECU/mt or approximately 5.5 percent. In addition, the current seven percent tariff on frozen and chilled pork livers will be eliminated. By comparison, this tariff rate quota of 75,000 mt is slightly larger than all U.S. exports to Japan in 1992. In addition, the EFTA countries, which will soon join the EU, will provide significantly improved access for pork and pork products.

Under the GATT agreement, each of the 117 member countries are required to permit minimum market access of 3 percent, based upon consumption of product in the member country during the 1986-1988 base period. Furthermore the market access must grow to 5 percent by the end of the implementation period. As a result, the U.S. pork industry should be provided significantly increased market access opportunities in numerous markets throughout the world. For example, the Philippines has committed to opening its market to a 32,000 mt tariff rate quota for pork, growing to 54,000 mt by 2004 with a 30 percent in-quota tariff. In addition, Thailand will reduce its current 60 tariff to 30 or 40 percent, depending of tariff product category over a ten year implementation period.

Given that the U.S. pork industry does not receive direct government supports or export subsidies, the GATT export subsidy and internal support texts will have little if any impact on the industry. However, the U.S. will reduce its tariff on imported pork from 2.2 cents per kilogram to 1.4 cents per kilogram, in equal annual installments over six years beginning in 1995.

The U.S. pork industry is the lowest cost producer of pork in the world. Unfortunately, the U.S. pork industry has not been able to use its comparative advantage in many world markets due to aggressive export subsidies, layers of internal production supports, trade distorting nontariff trade barriers and outrageously high tariffs of importing and exporting countries alike. While it would be extremely naive to think that this GATT agreement will resolve all of these issues, it appears that significant progress has been made to start to break down these barriers to exports of U.S. pork.

Mr. Chairman, thank you for this opportunity to express the views of the pork industry on the GATT agreement.

Western Growers Association

Serving the California and Arizona Fresh Produce Industry



Statement of Western Growers Association

House Committee on Agriculture

April 20, 1994

Opening foreign markets and expanding our agricultural exports has always been one of our major priorities at Western Growers Association. We strongly believe that it is critical for agriculture to continue expanding exports through greater access to world markets and reductions in unfair foreign trade barriers.

Today, we will focus on the following major points with respect to the Uruguay Round Agreement:

- 1) Original goals of the horticultural industry.
- 2) Internal and export subsidies
- 3) Market access
- 4) Sanitary and phytosanitary agreement
- 5) Special treatment for developing countries
- 6) Dispute settlement
- 7) The Recording of Trade Complaints
- 8) Overall assessment of the Uruguay Round Agreement

The Goals of the Horticultural Industry

The objectives of the horticultural industry at the beginning of the Uruguay Round negotiations were to remove all tariffs and non-tariff barriers and to eliminate all subsidies. As such, Western Growers was a strong supporter of the United States' original objectives at the beginning of the Uruguay Round. In 1987, the U.S. put forward its "Proposal to End World Agricultural Subsidies," which called for a complete phase out of import barriers and all agriculture subsidies over a 10 year period.

The objectives of eliminating all trade barriers and all agricultural subsidies were interrelated. If one nation was permitted to maintain subsidies, tariffs, etc., while the U.S. tariff was phased out, the final trade agreement would perpetuate trade distortions. The goal of removing all tariffs and non-tariff barriers was intended to prevent the creation of an unintended GATT negotiated injury to any individual sector of the perishable fruit, vegetable, or nut industry.

This trade strategy followed the Reagan Administration's initiation of a "framework agreement" with Mexico, which indicated to the horticulture industry the strong possibility of a future free trade agreement with Mexico. In addition, the Bush Administration introduced the Enterprise for the Americas

Initiative, which would eventually provide other Latin and Central American nations with greater market access to the U.S. for their fresh fruits and vegetables.

Recognizing the increased competition from Latin America, the U.S. horticulture industry sought to gain the greatest market access from the Pacific Rim nations, the European Community (E.U.), and EFTA nations in the Uruguay Round.

Realizing that a 100 percent elimination was probably not attainable due to the intransigence of many of our trade partners, we were willing to accept the "progressive, substantial reduction" concept agreed to at the mid-term meeting in 1988, despite the fact that this was substantial retreat from the original U.S. position.

Internal and Export Subsidies in the Uruguay Round

Reduced internal support programs will not impact the U.S. horticultural industry, but will impact the EU horticultural industry.

The U.S. horticultural industry does not receive export or domestic subsidies, as defined in the Uruguay Round text, and therefore, would have preferred the original Punta del Este agreement for its substantial reduction in export and domestic

subsidies. The industry is placed at a disadvantage when its foreign competitors receive such assistance. In particular, the E.U. has bestowed generous subsidies on their horticultural producers, making it difficult for U.S. horticultural producers to compete in the U.S. against E.U. imports and especially difficult to compete in the E.U. market. In addition, it is probable that before the next multilateral round or the five year review, the EFTA nations will enter E.U. and some of the E.U. protection will be extended to these nations.

Market Access

Tariffication, reduced tariffs, and minimum access requirements will increase exports.

Foreign tariff and non-tariff barriers currently are numerous for the U.S. horticultural export markets. In some nations, the tariffs are extremely high; in others, licenses are required to import horticultural crops. Many nations have bogus phytosanitary barriers, while the E.U. employs the reference price system.

The U.S. fruit and vegetable industry will not be part of the Uruguay Round's tariffication program, but many of its export markets will be expected to participate in the program. Consequently, the U.S. horticultural industry will benefit.

The minimum access markets will be open to all exporting nations, and it is important for the U.S. exporters to receive an appropriate share of the export market. Furthermore, the minimum access commitments should be established for both in-season and out-of-season production. For example, if Japan or South Korea establish the minimum access for the period when their producers are not in production, the Southern Hemisphere nations will benefit, rather than the United States.

Sanitary and Phytosanitary

Strict enforcement of the Uruguay Round's phytosanitary provisions are critical for the U.S. horticultural industry.

The adoption of the Sanitary and Phytosanitary agreement is a good start towards removing bogus reasons for denying our crops market access. The horticultural industry is concerned with the reasons for weakening the original agreement, but the current agreement should provide the industry with an improved system to open closed markets because of bogus sanitary and phytosanitary reasons. It is important to the horticultural industry that the provisions of the agreement be strictly enforced.

Special and Differential Treatment for Developing Countries

With the conclusion of the Uruguay Round, the Generalized System of Preferences should not be renewed.

In the past, horticultural crops have often been the trade articles which provided most of the concessions for nations benefiting from the Special and Differential Treatment Program. The U.S. horticultural industry cannot continue to support preferential treatment for developing nations unless the Administration develops a new export market trade policy specifically for horticultural products. With the new benefits for developing nations provided by the Uruguay Round, the Generalized System of Preferences, which has caused considerable damage to the horticultural industry, should not be renewed.

Dispute Settlement and the World Trade Organization

Regulations to facilitate the process of filing for dispute settlement would be helpful to the horticultural industry.

The dispute settlement system should be a major benefit for the horticultural industry. There are many unfair trade barriers which have prohibited the export of horticultural products, many of which are false phytosanitary claims, as mentioned above. The improved dispute settlement procedures will hopefully deter

nations from raising bogus issues and should assist the horticultural industry in resolving problems that undoubtedly will arise.

The Administration must be prepared for many disputes, and we recommend that regulations be developed to provide guidance for filing of these disputes. Also, the numerous trade complaints need to be brought to the attention of the public. The Association recommends that a registry at the USTR be created so our horticultural industry can file unfair trade complaints with a central office.

Overall Assessment of the Uruguay Round Agreement

Clearly, the final Uruguay Round agreement must be considered progress for the U.S. horticultural industry, as compared to current trade law. In general, the tariff reductions for market access are an advantage. Japan, in particular, provides for reasonable tariff reductions. E.U. reductions are low, except for several crops that benefit from the amended Blair House Agreement.

One of the most important advances is the reduction of the E.U. reference price system by 20%. The system will also be locked in at 1986 to 1990 levels.

Other trade benefits include agreements on: the minimum market access commitments; Sanitary and Phytosanitary Measures; and Rules and Procedures Governing Settlement of Disputes.

The establishment of the Peace Clause could create a problem for the U.S. horticultural industry, since this industry has been relatively free of trade violations, whereas competing nations have violated GATT rules.

The Recording of Trade Complaints

There has been a record number of trade complaints since the completion of the Tokyo Round. Numerous unfair trade acts by foreign governments are making exports difficult, and are injurious to the domestic fruit, vegetable, and nut industry. Many of these tariff and non-tariff barriers, dumping, and subsidy practices are not being brought to the attention of the government and the public. Moreover, they too often are not being addressed in a timely manner.

It is recommended that an office of USDA's Foreign Agriculture Service be created to receive these complaints. We further recommend that a specific time frame for government action be established to ensure that these matters are dealt with promptly. If the complaints are meritorious, they should be published in the Federal Register. If the complaint is not meritorious, then

the complainant should be notified and informed as to why the complaint does not have merit.

Conclusion

While we are greatly disappointed that the ultimate Uruguay Round Agreement falls far short of our original goals, we nevertheless believe that it is preferable to the status quo in world trade. We would stress that the key to success under the Agreement for the horticultural industry is effective enforcement of the phytosanitary and dispute settlement provisions. We view the Agreement as a positive first step, and believe that a great deal of work needs to be done towards achieving greater market access and reducing agricultural subsidies around the world for our nation's fresh fruit, vegetable, and nut industries.

Western Growers Association has over 2400 members who grow, pack and ship fruit, vegetables, and nuts in California and Arizona. Our members grow, pack, and ship 90% of the nation's vegetables and about 50% of the nation's fresh fruit and nuts during peak harvest periods.

HARRIS WOFFORD
PENNSYLVANIA

ENVIRONMENT AND PUBLIC WORKS
LABOR AND HUMAN RESOURCES
FOREIGN RELATIONS
SMALL BUSINESS

United States Senate

WASHINGTON, DC 20510-3803

April 19, 1994

The Honorable Tim Holden
1421 Longworth House Office Building
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Holden,

Recently, our staff representatives met with key members of the Pennsylvania dairy industry in Reading to solicit their views on the Uruguay Round of the GATT. From all accounts, the meeting was a tremendous success.

As a result, I have formulated very specific questions which I would like answered by the Administration. Also, I have incorporated several recommendations that I believe would help ameliorate the negative impact of GATT on our dairy industry.

I would appreciate it if you would read my statement into the record of the House Agriculture Committee's public hearing on the GATT. It is my understanding that this meeting is to be held on the 20th of April.

Thanking you for your consideration of my request.

Warm regards,


Harris Wofford

attachment



Harris Wofford
U.S. Senator

Statement Before

The House Agriculture Committee
U.S. House of Representatives
April 20, 1994

Mr. Chairman, thank you for the opportunity to present my concerns and recommendations to you and the Committee regarding the Uruguay Round of the GATT impact on the domestic dairy industry.

Our domestic dairy industry will be forced to contend with major changes in new GATT access levels granted to foreign countries in cheese and non-cheese products. These new access levels come at a time when the outlook for domestic dairy products is highly uncertain. In addition, the Administration is considering the auctioning of dairy import licenses to help pay for GATT.

The proposed auctioning makes no budgetary sense because, as Congressional Research study has shown, the auctioning of cheese licenses would raise very little revenue. Further, it will give greater control over our domestic dairy market to aggressive national export entities like the New Zealand Dairy Board.

~~It is my hope that the Administration will work closely with concerned members of the industry such as the members of the Dairy Trade Coalition and the Congress to ensure that the new cheese and non-cheese minimum access is implemented in the least disruptive manner.~~

I have outlined a series of questions, of concern to my constituents which I would like to have answered by the Administration. Further, I bring to your attention proposed recommendations which will help the GATT's negative impact on the domestic dairy industry. Mr. Chairman, I would appreciate your Committee's favorable consideration of them.

- 1) If the Administration is proposing USDA budget cuts to help pay for the GATT, what programs do they propose cutting or eliminating? What is the total amount of proposed USDA budget cuts?
- 2) What are the new cheese and non-cheese access amounts by variety as assigned to each country? What did New Zealand get and what did they give up to get it?



3) How will the USDA implement the large dairy (both cheese and non-cheese) access amounts? What specific domestic groups will they work with in order to assure an orderly implementation of the new access amounts?

4) A USDA publication cites the New Zealand Dairy Board as an unreformed and anti-competitive entity which as a statutory monopoly has the advantage of sole sourcing (and pricing) rights for New Zealand Dairy products destined for export markets.

Does the New Zealand Dairy Board violate U.S. anti-trust laws? And, what is the opinion of the Department of Justice and the Internal Revenue Service on this question?

5) The auctioning of the cheese licenses will have a detrimental impact on an already stressed dairy industry. Why is the Administration pursuing this proposal?

6) Given the potential for predatory practices of other governments, adjustments to the current regulations are necessary to ensure equity as the import market adjust to the GATT. The attached revisions to the current cheese importing regulations should be adopted as part of the GATT implementing legislation.

Mr. Chairman, thank you for the opportunity to present my concerns to you and your committee. I look forward to working with your Committee on these issues.



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